2016-1882

# United States Court of Appeals
for the
Federal Circuit

ADJUSTACAM, LLC,
Plaintiff-Appellee,

v.

NEWEGG INC., NEWEGG.COM, INC., & ROSEWILL, INC.,
Defendants-Appellants.

Appeals from the United States District Court for the Eastern District of Texas in Case No. 6:10-CV-329-JRG, Judge Rodney Gilstrap

NON-CONFIDENTIAL BRIEF OF DEFENDANTS-APPELLANTS NEWEGG INC., NEWEGG.COM, INC., & ROSEWILL, INC.

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June 13, 2016

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

AdjustaCam v. Newegg, 2016-1882

CERTIFICATE OF INTEREST

Counsel for Newegg Inc. hereby certifies the following:

1. The full name of every party or amicus represented by me is:

Newegg Inc.; Newegg.com, Inc.; Rosewill, Inc.

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is:

Not applicable.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

No publicly held company owns ten percent or more stock in Newegg Inc.; Newegg.com, Inc.; or Rosewill, Inc. Newegg Inc. has no parent corporation. Prior to the dissolution of Newegg.com Inc., Newegg Inc. was the parent company of Newegg.com Inc. Rosewill Inc. is a wholly owned subsidiary of Magnell Associate Inc., which is a wholly-owned subsidiary of Newegg North America Inc., which is wholly owned by Newegg Inc.

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court are:

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Dated: June 13, 2016

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STATEMENT OF RELATED CASES

AdjustaCam, LLC ("AdjustaCam") and Newegg Inc., Newegg.com, Inc., and Rosewill, Inc. (collectively, "Newegg" or "the Newegg Defendants") previously filed cross appeals to this Court arising from this same civil action. *See* Fed. Cir. Appeal Nos. 2013-1665, -1666, -1667. Those prior appeals resulted a remand for reconsideration. *AdjustaCam, LLC v. Newegg, Inc.*, 626 Fed. Appx. 987 (Fed. Cir. 2015). The present appeal arises from the judgment on remand.

Newegg and its undersigned counsel are unaware of any other actions now pending in this or any other court that will directly affect or be directly affected by this Court's decision in the present appeal.

JURISDICTIONAL STATEMENT

The district court had original jurisdiction under 28 U.S.C. §§ 1331 and 1338(a). Newegg filed a timely and proper notice of appeal under 28 U.S.C. § 2107(a) and Federal Rule of Appellate Procedure 4. This Court has appellate jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

STATEMENT OF THE ISSUES

1. Whether the district court erred by failing to award Newegg its attorneys' and experts' fees under 35 U.S.C. § 285 and its inherent authority, respectively, despite clear and unrebutted evidence showing that this lawsuit was meritless, and that it was filed and prosecuted to leverage the burden and expense of litigation to coerce a nuisance-value settlement payment from Newegg.

2. Whether the district court erred by failing to consider the totality of the circumstances in conducting its analysis, instead deferring to prior findings made by a different judge under a different, now-abrogated legal standard.

INTRODUCTION

AdjustaCam filed this frivolous lawsuit, not with any hope of winning the case, but solely in order to collect a nuisance-value settlement. This is exactly the type of baseless case abusing the judicial system for financial gain that warrants fee shifting under Section 285.

AdjustaCam could never have genuinely believed that Newegg infringed its patent. AdjustaCam's patent covers an adjustable camera that is expressly claimed to be rotatable about a *single axis*, yet AdjustaCam accused Newegg's products that, on their face, use ball-and-socket joints that can rotate the camera about *multiple axes*. That fundamental difference alone makes AdjustaCam's infringement claims completely meritless.

Even after the district court's *Markman* order confirmed that Adjustacam's patent required rotation only around a single-axis, AdjustaCam pressed on with the case and made overreaching and unsupportable nuisance-value settlement demands of Newegg. AdjustaCam went so far as to fabricate a sham "target royalty" unsupported by even a single license in the record that was advanced by AdjustaCam to distance itself from the true, nuisance nature of its settlement history.

Faced with imminent loss on summary judgment, AdjustaCam, having already obtained many nuisance payments from Newegg's co-defendants, dismissed the case. AdjustaCam made a considerable amount of money in this nuisance litigation campaign[1] and has yet to face any adverse legal consequences for bringing its many baseless lawsuits.

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[1] AdjustaCam has collected [[[redacted]]] from 20 small, nuisance-value settlements. *See* Appx1282. Unlike in other cases such as *SFA Sys., LLC v. Newegg Inc.*, there are no "larger settlements imply[ing] that [AdjustaCam] does

Who says patent abuse doesn't pay? Under these circumstances, why would plaintiffs stop filing frivolous patent suits?

When plaintiffs like AdjustaCam unilaterally abandon their cases to prevent an adverse judgment on the merits, litigation abuse will never be exposed—let alone remedied and deterred—unless Section 285 is applied as a "safeguard." *Commil USA, LLC v. Cisco Systems, Inc.*, 135 S. Ct. 1920, 1930 (2015) (criticizing litigants that "use patents as a sword to go after defendants for money, even when their claims are frivolous," and "stress[ing] that district courts have the authority and responsibility to ensure frivolous cases are dissuaded" via § 285). In cases like this one that are dismissed before judgment, a fee motion is the first and only time that the district court is able to evaluate the parties' positions. Thus, if a fee motion is not taken seriously and examined closely at that time, the merits will never be examined. The district court here abdicated its responsibility to do so.

Former Judge Leonard Davis denied Newegg's original fee motion before the Supreme Court's decision in *Octane Fitness*. Judge Davis gave scant attention to Newegg's arguments. He did not appreciate a straightforward infringement issue and barely delved into AdjustaCam's settlement history where AdjustaCam's bad faith was evident. Judge Davis did not even mention, much less assess, the

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not always seek nuisance value settlements for amounts far less than the cost of litigation." 793 F.3d 1344, 1351 (Fed. Cir. 2015).

prior art asserted by Newegg to show that that AdjustaCam's validity arguments were frivolous.

Newegg appealed, and this Court remanded the case for the district court to reconsider Newegg's motion in light of the Supreme Court's intervening *Octane Fitness* decision, which fundamentally changed the standard for exceptionality under Section 285. While this Court did not prejudge the result under the new standard, the panel opinion went out of its way to note the "significant merit" in Newegg's fee motion.

Because Judge Davis had retired while Newegg's appeal was pending, the case was reassigned to Judge Rodney Gilstrap of the Eastern District of Texas on remand. Instead of exercising the independent judgment and discretion required to reconsider Newegg's motion under *Octane Fitness*, Judge Gilstrap rubber-stamped Judge Davis's prior findings without any discussion of why those findings were believed to be correct, much less correct under the new *Octane Fitness* framework.

Judge Davis's original decision should have been of marginal, if any, relevance because it was made under the *Brooks Furniture* standard expressly rejected by the Supreme Court in *Octane Fitness*. *Octane Fitness* enhanced the probative value of Newegg's arguments by broadening the scope of what cases may be deemed exceptional, and by eliminating the requirement that Newegg prove its entitlement to fees by clear and convincing evidence. To adopt, unquestioningly, a determination made under the now-abrogated *Brooks Furniture* standard is an abuse of discretion that violates both *Octane Fitness* and this Court's mandate to consider the issue anew.

But Judge Gilstrap not only failed to perform the requisite analysis—he deemed it inappropriate, despite this Court's order, to even consider Newegg's arguments anew under *Octane Fitness*. In his view, it was not his place or the place of this Court "to circumvent by hindsight the judgments and in-person evaluations that the trial judge who dealt with this case in the courtroom arena was best positioned to have made." Appx0001_6 n.6. In keeping with this view, he afforded no weight to this Court's comment about the "significant merit" in Newegg's motion.

The Eastern District of Texas—an infamously pro-plaintiff jurisdiction that is a favorite for abusive patent asserters, *see* Daniel Klerman & Greg Reilly, *Forum Selling*, 89 S. CAL. L. REV. 241, 268-69, 279 (2016)—has granted only three § 285 motions post-*Octane Fitness* out of dozens filed. That is far fewer, proportionally, than any other district. If anything, one would expect fee shifting to be more common in the Eastern District of Texas than elsewhere, because more meritless cases are filed there than anywhere else. But no case can stand out as exceptional when a district court refuses to meaningfully assess the merits.

STATEMENT OF THE CASE AND FACTS

I. THE PARTIES

AdjustaCam is an LLC that is exclusively in the business of patent litigation. As a wholly-owned subsidiary of Acacia Research Group, LLC, its business follows the all-too-familiar model of using the burden and expense of patent litigation to extort nuisance-value settlement fees from dozens or even hundreds of defendants. Appx1779.

Newegg is an online-only retailer of computers, consumer electronics, and other related products. Newegg conducts its business primarily via www.newegg.com. Rosewill is Newegg's private-label brand for selling certain electronics products manufactured by third parties.

II. PROCEDURAL HISTORY OF THE UNDERLYING CASE

AdjustaCam brought this action in July 2010 against 59 defendants, including the Newegg Defendants, alleging that certain camera products sold by the Newegg Defendants infringed United States Patent No. 5,855,343 ("the '343 Patent"), entitled "Camera Clip." Appx0004. The '343 Patent is owned by Global-Media Group, LLC, and AdjustaCam is the exclusive licensee of the patent. Appx1789.

Immediately after filing suit, AdjustaCam began seeking to settle with the defendants for amounts far below the cost of defense. All defendants other than the Newegg Defendants and Sakar International, Inc. ("Sakar") settled with AdjustaCam well before trial and were dismissed. Appx0004. Most defendants paid lump sums well under [[[redacted]]] to settle the case, and always as round numbers. Appx1282.

Magistrate Judge Love held a *Markman* hearing to construe various claim terms of the '343 Patent. Appx0013. He issued a *Markman* order which was subsequently adopted by Judge Davis. Appx0013-Appx0027; Appx0012 ("the *Markman* Order").

Among the terms Judge Love addressed in the *Markman* Order was the term "[r]otatably attached/adapted to be rotatably attached/adapted to rotatably attach." Appx0020-Appx0023. The parties disputed whether the term as used in the claims "allow[s] for a 'rotatably attached' object to rotate over more than a single axis." Appx0020. The district court agreed with the defendants, noting that "[t]he claims plainly describe each 'rotatably attached' object as rotating about a single axis." Appx0022. The district court also explained that "[e]very reference to a 'rotatably attached' object in the specification and claims describes the attachment as permitting motion over a single axis of rotation." Appx0021. Although the term "did not require construction," the district court nonetheless resolved the claim interpretation dispute, holding that "'rotatably attached' objects in the patent-in-suit are limited to a single axis of rotation." Appx0022-Appx0023 (prohibiting the parties from contradicting the district court's resolution of the dispute as the case went forward).

In the few months following the *Markman* Order, AdjustaCam quickly proceeded to settle with and dismiss the remaining defendants. Appx1282; Appx0147-Appx0153. These companies generally paid AdjustaCam less than [[[redacted]]] to be dismissed, consistent with the pre-*Markman* settlements. Appx1282.

After considerable expert discovery was completed and the case was on the verge of summary judgment and *Daubert* proceedings, AdjustaCam filed a motion to dismiss its claims against the Newegg Defendants with prejudice. Appx2136-Appx2137. The motion also sought to dismiss the Newegg Defendants' invalidity and non-infringement declaratory judgment counterclaims for lack of subject matter jurisdiction, *with* prejudice, based on a covenant not to sue that extinguished the case or controversy with respect to the counterclaims. *Id*.

Newegg opposed the motion to dismiss, arguing that its declaratory judgment counterclaims should not be dismissed *with* prejudice. Appx2093-Appx2095 (explaining that "the covenant not to sue offered by AdjustaCam lacks certain critical elements required to protect Newegg from charges of infringement by AdjustaCam or its successors regarding future Newegg products"). AdjustaCam subsequently filed a new, unopposed motion that sought to dismiss its infringement claims with prejudice and Newegg's counterclaims without prejudice, which the district court granted. Appx1986-Appx1987; Appx0155.

III. ADJUSTACAM'S INFRINGEMENT ALLEGATIONS

The '343 Patent is directed to a camera clip that supports a camera when sitting on a flat surface or when attached to an object, such as a computer monitor:

Fig. 1

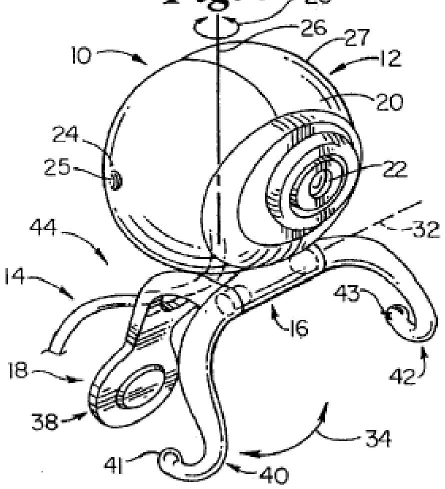


Fig. 2

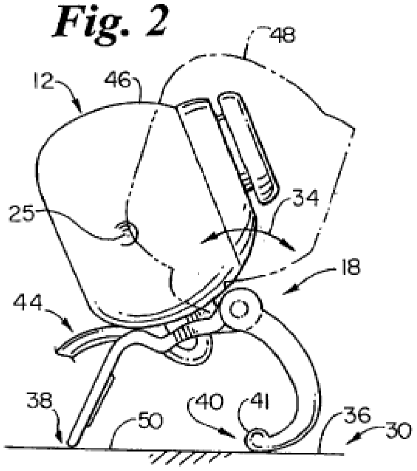
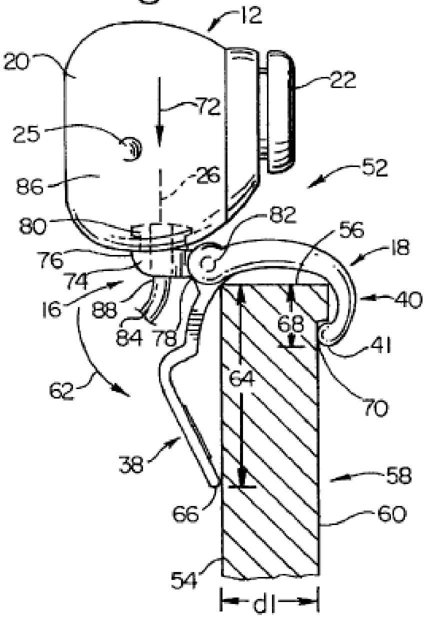


Fig. 4



’343 Patent, Figs. 1, 2, 4. The clip allows for rotation in two distinct directions about distinct axes of rotation described as the “first axis” and “second axis.”

First, as shown in Fig. 1 above, the camera can be rotated to pan side-to-side. The specification explains: “[h]inge member 16 is rotatably attached to camera 12, where camera 12 rotates over a first axis 26 in a direction shown by arrow 28 relative to hinge member 16.” ’343 Patent, at 4:17-19. Second, as shown in Fig. 2 above, the camera (via the hinge member) can be tilted upward and downward. The specification explains: “[h]inge member 16 rotates over a second axis 32 in the direction shown by arrow 34 relative to support frame 18. First axis 26 is perpendicular to second axis 32.” ’343 Patent, at 4:21-24.

These two specific axes of rotation are expressly required by all independent claims in the ’343 Patent. *See*, *e.g.*, ’343 Patent, Claim 1 (“a hinge member adapted to be rotatably attached to the camera, said camera, when the hinge member is so attached, *rotating, about a first axis of rotation*, relative to said hinge member”); *id* (“a support frame rotatably attached to said hinge member . . . , said hinge member *rotating about a second axis of rotation* relative to said support frame, said first axis of rotation being generally perpendicular to said second axis of rotation”).[2]

[2] All emphases added unless otherwise indicated.

Notably, the claims in the ’343 Patent do not merely recite the capability of rotating in two directions. The claims recite three distinct components of importance to this case—a camera, a hinge member, and a support frame—and both of the claimed axes of rotation are defined relative to two of those three components. The claimed camera (12) only rotates “about a first axis of rotation, *relative to said hinge member*” (16), and the claimed hinge member (16) only rotates “about a second axis of rotation, *relative to said support frame*” (18). ’343 Patent, Claim 1. Thus, each component can only rotate about a single axis relative to the other component. Accordingly, the district court held that the term “[r]otatably attached/adapted to be rotatably attached/adapted to rotatably attach” as used in the claims indicated that “‘rotatably attached’ objects in the patent-in-suit are limited to a single axis of rotation.” Appx0022-Appx0023. Put another way, “[t]he claims plainly describe *each* ‘rotatably attached’ object [i.e., the camera and support frame] as rotating about a single axis.” Appx0022.

Unlike the camera covered by the ’343 Patent, AdjustaCam accused products where rotation of one component relative to the other is not limited to a single axis. Instead, these products (the “Accused Ball-and-Socket Products”) include a camera and support frame connected via a ball-and-socket joint, which facilitates rotation about *multiple axes*. The following photographs of the accused

Rosewill RCM-8163 (below left) and Hercules Classic (below right) webcams are representative of the Accused Ball-and-Socket Products:

Socket
Stem
Rosewill
Ball and Socket with Multiple Axes of Rotation
Ball

Ball
Socket
Hercules

Appx1786; *see also* Appx1755-Appx1775. The nature of these ball-and-socket joints is that they allow the camera to spin and pivot about multiple axes of rotation with respect to the support frame (not just a single axis), and the support frame is likewise able to spin and pivot about multiple axes of rotation with respect to the camera (not just a single axis). *Id*.

Comparing the Accused Ball-and-Socket Products to the claims and specification of the ’343 Patent clearly reveals this distinction. The mere fact that the cameras in the Accused Ball-and-Socket Products can be *both* twisted *and* tilted about the socket confirms rotation of the camera about at least two distinct axes. *See* Appx0022. This functionality is plain on the face of the Accused Ball-and-Socket Products, and was readily apparent to AdjustaCam at the outset of this lawsuit.

The *Markman* Order later conclusively established that such a ball-and-socket multi-axis configuration was outside the scope of the claims of the ’343 Patent. *See* Appx0022 (“The claims plainly describe each ‘rotatably attached’ object [i.e., the camera and support frame] as rotating about a single axis.”). Yet AdjustaCam pressed on with the case, undeterred, into expert discovery.

According to AdjustaCam, “what Newegg/Rosewill allege is a ball and socket joint is actually a modified ball and socket joint . . . because there is a channel that restricts movement.” Appx1194.

Appx1194-Appx1195. AdjustaCam posited that “[t]his restricted movement results in *two functionally independent joints* which have ranges of movement independent of each other.” *Id.* Even though the camera can rotate in *two* independent ways with respect to the support frame, in AdjustaCam’s view, the fact that a channel restricts that movement compared to a channel-less camera meant that somehow the Accused Ball-and-Socket Products are “limited to a *single* axis of rotation.” Appx0022-Appx0023.

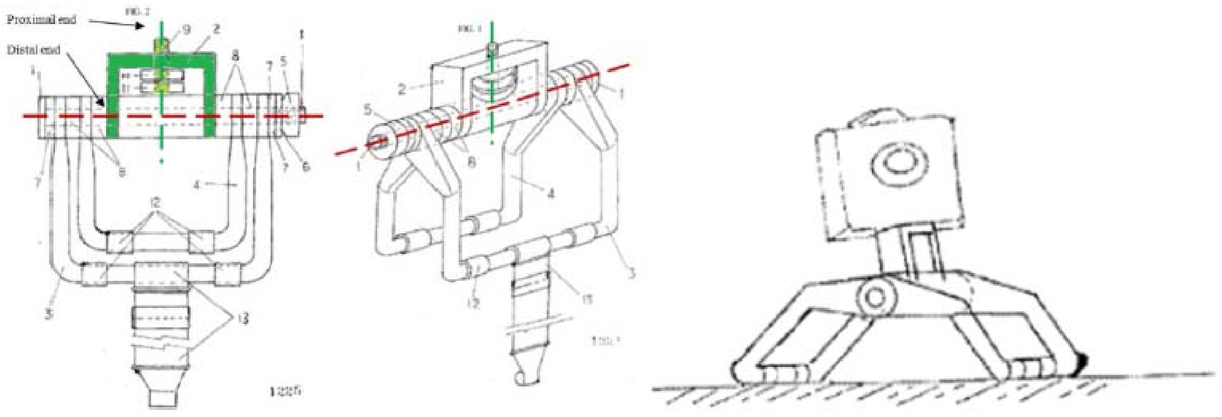
AdjustaCam served the expert report of Dr. John C. Muskivitch who, despite the district court's holding that "rotatably attached" objects are "limited to a single axis of rotation," opined that the Accused Ball-and-Socket Products met the claim requirements. *See generally* Appx1253-Appx1260. But the testimony of Dr. Muskivitch highlights the absurdity of AdjustaCam's position. In Dr. Muskovitch's deposition, he explained that the various rotations are "separate" because "if I rotate it around to the center, there is nothing that forces it to move, to tilt or to sway to either side." Appx0482-Appx0483; Appx0484 ("There is two axes, but they are separate."). Even though the supposedly "constrained" ball-and-socket joint enables the camera to rotate about multiple axes, as long as one only chooses to rotate the camera in a single direction at a time, Dr. Muskovitch concluded that the joint is "*limited* to a single axis of rotation."

While the presence of two axes of rotation for the camera was sufficient to preclude infringement, Dr. Muskovitch in fact conceded that there are at least *three* different axis of rotation for the camera in each Accused Ball-and-Socket Product: "This happens to be a constrained ball and socket joint. So [the camera] can [1] spin about the axis, it can [2] move forward, it may be able to [3] move to the side." Appx0485-Appx0487.

Thus, there could never have been any infringement by the Accused Ball-and-Socket Products. AdjustaCam's argument that a ball-and-socket joint somehow limits rotation to a single axis was frivolous. Even a “constrained ball-and-socket joint,” as contrived by AdjustaCam, allows movement about multiple axes of rotation and was, therefore, outside the reach of the ’343 Patent’s claims.

IV. ADJUSTACAM’S VALIDITY ARGUMENTS

AdjustaCam also took frivolous positions when arguing the validity of its patent over Japanese Utility Model Publication No. H2-19997 to Irifune (“Irifune”). Irifune discloses a camera rotatably attached to a hinge member (mounting device (2)) via the threaded “camera attachment shaft (9)”:



Appx1386, Appx1387, Appx1394.

As early as August 12, 2011, in a reexamination proceeding regarding the ’343 Patent, the USPTO rejected the asserted claims as anticipated and/or obvious based on Irifune. Appx1425; Appx1431-Appx1436; Appx1376-Appx1396 (English translation of Irifune). The patent owner made the same argument there that AdjustaCam made in court, asserting that the plain and ordinary meaning of attached is “permanently fixed, joined, connected, or bound.” Appx1447. The examiner rejected this argument twice, correctly concluding that "it is clearly possible to loosen the attachment screw, to enable the pivoting of the camera relative to support (fixed part 2) while the camera is still attached to the support." Appx1470-Appx1474; Appx1476; Appx1508-Appx1510. After the third rejection based on Irifune, the patent owner cancelled all the asserted claims on September 20, 2012. Appx1515-Appx1519, Appx1460, Appx1465, Appx1469-Appx1474, Appx1493, Appx1502-Appx1506.

Nonetheless, despite being aware of the first two rejections,[3] AdjustaCam and its expert took the indefensible position that Irifune does not disclose a camera that is "rotatably attached" per the '343 Patent. Appx1205-Appx1207, Appx 1262-Appx1263. Specifically, Dr. Muskivitch reasoned that "[w]ith Irifune, the camera is not even attached to the hinge member until fully tightened down using camera attachment shaft (9) and camera attachment screws (10 and (11)." Appx1263. Using an exceedingly narrow definition of "attached" ("permanently fixed, joined, connected, or bound"), Dr. Muskivitch opined that Irifune did not meet the claim requirements because "[o]nce the camera is attached to the fixed part 2, the camera cannot rotate about a first axis relative to the hinge member." *Id.* Put another

[3] The third, final rejection based on Irifune was issued on August 30, 2012, three days after AdjustaCam moved to dismiss its case against Newegg. Appx1493; Appx1508-Appx1510; A2141 (August 27, 2012 motion to dismiss). The prior two office actions, dated August 12, 2011 and March 8, 2012 (Appx1466, Appx1460), were issued long before Dr. Muskivitch's July 26, 2012 report (Appx1262).

way, in Dr. Muskivitch's view, when the camera of Irifune is screwed all the way onto the hinge member, the camera cannot be rotated, and if the camera is loosened to permit rotation, the camera is not attached. *Id.* ("[E]ven assuming for the sake of argument that with Irifune the camera is attached, it is not "rotatably attached.").

V. ADJUSTACAM'S SETTLEMENTS AND DEMANDS

AdjustaCam approached Newegg and its co-defendants to discuss settlement of the case almost immediately after it filed suit. Nearly every defendant proceeded to settle for a dollar amount well under the cost to defend oneself against the infringement allegations, paying lump-sum amounts not keyed to actual sales, and most less than [[[redacted]]]. Appx1282 (AdjustaCam settlement agreement summary); Appx1283-Appx1285.

Just two months after filing this lawsuit in July 2010, AdjustaCam executed its first nuisance-value settlement with defendant Trippe Manufacturing in the amount of [[[redacted]]]. Appx2182. Soon thereafter, AdjustaCam settled with defendants Klip Extreme, LLC and Software Brokers of America (D/B/A Intcomex) for the same amount, and a few months later AdjustaCam settled with defendants Phoebe Micro and jWIN for even less. *Id.* By the time AdjustaCam dismissed Newegg in 2012, AdjustaCam had settled with eleven defendants for [[[redacted]]] or less, three defendants for amounts between [[[redacted]]] and [[[redacted]]], four defendants for amounts between [[[redacted]]] and [[[redacted]]], and two defendants for amounts greater than [[[redacted]]]. Appx1282. All of the payments are facially a small fraction of the cost of defending a patent infringement lawsuit.

None of the settlement payments have any demonstrable tie to the defendants' potential exposure in the litigation. Yet AdjustaCam and its damages expert maintained that AdjustaCam's settlement agreements (and demands) were based on an established target royalty of $1.25-$1.50/unit. *See* Appx1195-Appx1197 ("In its licensing program for this litigation, AdjustaCam used this $1.25 - $1.50 per webcam royalty rate as a baseline for licensing the various defendants."); Appx1324 ("[T]he 14 lump-sum settlements were based on negotiations targeting a royalty of $1.25 to $1.50."); Appx1327-Appx1330.

This assertion has no support in the record. For example, looking at the units sold by AdjustaCam's licensees, the effective royalty rate for 15 of the lump-sum settlement ranged from a minimum of [[[redacted]]]/unit to a maximum of [[[redacted]]]/unit, with scattered data points in between. Appx1283-Appx1285. Of those settlements, not a single agreement included an effective royalty rate between $1.25 and $1.50 per unit for the defendant's sales figures. *Id.* Few were even close.

The alleged basis for the target royalty of $1.25-$1.50/unit was two settlement and license agreements entered into in 2001[4] by one of AdjustaCam's predecessors in interest, PAR Technologies, both of which included lump sum payments plus prospective running royalty components. Appx1197; Appx1282; Appx1303-Appx1306. One of these agreements had a tiered prospective royalty structure ranging from [[[redacted]]] to [[[redacted]]] per unit as the number of units increased, and the other had a royalty structure of [[[redacted]]] per unit that decreased to [[[redacted]]] as the sales volume increased. Appx0542-Appx0545; Appx0631.

From these two PAR Technologies agreements alone, without making any comparison of the PAR Technologies licenses to the facts of the case against Newegg and despite more than a dozen other licenses that do not support the proffered royalty range, AdjustaCam went so far as to paint its supposed target royalty as an established royalty. Appx1201 ("AdjustaCam's settlement numbers were tied to a pre-established unit royalty of $1.25 - $1.50 per infringing device."). But AdjustaCam never offered evidence to attempt to meet the high standard for proving an established royalty. Specifically, AdjustaCam failed to show that the PAR Technologies licenses were of sufficient number and frequency "to establish a regular price for a license" and "reflect a general acquiescence in [the price's]

[4] The PAR Technologies agreements were therefore dated five years prior to the hypothetical negotiation date in this case. *See* Appx0540 (indicating hypothetical negotiation date in 2006).

reasonableness," that the royalty-establishing licenses were not settlements of threatened or actual litigation, and that the circumstances and rights of the licenses are comparable to those in the present lawsuit. *See, e.g.*, *Rude v. Westcott*, 130 U.S. 152, 165 (1889); *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078 (Fed. Cir. 1983). Here, the two PAR Technologies licenses were both settlements of litigation and neither was shown by AdjustaCam to be comparable to the dispute between AdjustaCam and Newegg other than the fact that both involve the '343 Patent. Appx1196; Appx0631.

Further, while AdjustaCam and its expert took the position that "a royalty in the $1.25 to $1.50 frame" was its consistent target for licensing discussions, Appx1305-Appx1306, all such assertions trace back to the same bare, self-serving statements of AdjustaCam's 30(b)(6) witness, Steve Wong, that he used a $1.25 - $1.50 per unit target royalty in every negotiation using past and estimated future sales information. Appx0797-Appx0798 (explaining that Mr. Bratic's report and testimony relied on Mr. Wong's statements concerning the use of the "target royalty); Appx0558-Appx0559 (Bratic report citing exclusively to "Interview of Steve Wong" as source for alleged use of target royalty and consideration of licensees' sales); Appx0666 (Mr. Bratic reading portions of expert report discussing "general subject matter of the discussions with Mr. Wong").

In attempt to manufacture credibility for its inviolable "target royalty," AdjustaCam drafted six of its litigation settlement agreements to include a lump-sum payment plus a [[[redacted]]] per unit running royalty component once a certain threshold of sales was met beyond a fixed amount said to be covered by the lump-sum payment. Appx0545-Appx0549. This self-serving provision was included by AdjustaCam knowing full well that none of those six defendants would sell enough products to ever pay a running royalty during the term of the patent. Appx0558 (AdjustaCam's expert stating "I understand that AdjustaCam utilized this royalty structure because these licensees had a low volume of past sales it would be highly unlikely that total volume sales would exceed the units included in the lump-sum payment"); Appx1313-Appx1314 (AdjustaCam's expert admitting that none of the six licensees ever reached the maximum number of sales and had to pay a running royalty). Conveniently, AdjustaCam set the meaninglessly-high number of units threshold, when divided by the lump sum payment, to equate to an effective royalty for past sales of $1.25, $1.50, or $1.52 per unit. Appx0631-Appx0633. In reality, the parties to those six agreements paid lump-sum nuisance value ([[[redacted]]] or less) to settle with AdjustaCam. *Id.*

The agreement between AdjustaCam and Auditek, for example, included a [[[redacted]]] lump sum and a purported ongoing royalty of $1.50 after Auditek reached sales exceeding [[[redacted]]] units. Appx0549, Appx0633, Appx1282.

While these numbers may appear to imply a royalty of $1.50/unit, Auditek had sold only [[[redacted]]] units ever, which means that the [[[redacted]]] actually equates to [[[redacted]]]/unit. Appx1283. To sell enough cameras in the future to reach the $1.50/unit running royalty, Auditek would have to sell over 20 times its past volume every year for the following five years before the patent expires. Nobody, including AdjustaCam's expert, believed that Auditek would ever reach that level of sales. Appx0558 (admitting that it would be "highly unlikely").

Despite AdjustaCam's effort to conceal the true nature of its agreements, all of AdjustaCam's settlement licenses in reality reflect a nuisance-value lump sum payment, and AdjustaCam offered no evidence to suggest that it ever approached any negotiations with an intention to obtain its alleged target royalty. AdjustaCam's 30(b)(6) representative was not even aware of the number of units sold by any of the defendants with which AdjustaCam settled. Appx1337-Appx1338. Nor did information about actual unit sales for the defendants appear in AdjustaCam's expert's report.

Finally, AdjustaCam also made multiple settlement offers to Newegg that amount to nuisance value and were untied to Newegg's sales of the accused cameras. Early in the case, Newegg told AdjustaCam that its total implicated webcam sales were less than $100,000. Specifically, by that time, Newegg had confirmed sales of 14,499 units of the accused Rosewill products for total revenues of $63,760, plus sales of 5,904 units of other accused products—the majority of which were supplied to Newegg by other named defendants—for total revenues of $33,379. Appx1784; Appx1226; Appx1362-Appx1363. Despite claiming entitlement to a minimum per-unit royalty between $1.25 and $1.50, AdjustaCam demanded $75,000—nearly three times its "target" per-unit royalty and more than 75% of Newegg's total revenue from sales of the accused products. Appx1226; Appx1362-Appx1363.

VI. PROCEDURAL HISTORY OF THE FEES MOTION

After AdjustaCam dismissed its case against Newegg with prejudice, Newegg filed a motion for attorneys' fees and expert fees, which was denied. Appx0156, Appx0160. Chief Judge Davis deemed the case unexceptional, and based his judgment on findings that: (1) "one could reasonably argue [Newegg's] products meet the 'rotatably attached' limitation"; (2) while the small settlement payments "suggest this case was a settlement driven case," "there is no other evidence that AdjustaCam was merely exploiting the high cost of defending a patent case to obtain a nuisance value settlement"; and (3) "Defendants also have failed to demonstrate that AdjustaCam's validity arguments were baseless." Appx0006-Appx0008.

Newegg appealed the denial of its fee motion. Appx0160; Appx0195. AdjustaCam filed a separate notice of appeal the same day, seeking review of the district court's claim construction order. Appx0193. Although AdjustaCam's notice of appeal referred to the district court's "final judgment," that final judgment was not premised on any claim construction issues, nor did AdjustaCam seek a consent judgment incorporating the claim construction order as the basis for a judgment of non-infringement. Rather, the final judgment merely reflected AdjustaCam's unopposed motion to dismiss the case. Appx0001-Appx0003; Appx1986-Appx1987.

While the parties' prior appeals were pending, the Supreme Court decided *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014), which significantly lowered the standard for finding a case "exceptional" under Section 285. This Court remanded the case for reconsideration under *Octane Fitness*. *AdjustaCam*, 626 Fed. Appx. at 991 ("[B]ecause the district court must be afforded an opportunity to evaluate whether this case is 'exceptional' under the totality of the circumstances and a lower burden of proof, we vacate the district court's denial of attorney fees and remand for reconsideration in light of *Octane Fitness*."). In remanding, this Court observed that the Newegg Defendants' arguments had "significant merit, particularly their argument that AdjustaCam's continued pursuit of its infringement claims after the district court construed the claim term 'rotatably attached' was baseless." *Id.* at 991 n.2.

Recognizing that Judge Davis's denial of Newegg's expert fees was "premised on [his] finding that this case is not 'exceptional' under § 285," this Court also vacated and remanded for reconsideration of Newegg's request for expert fees under the district court's inherent authority. *Id.* at 991.

This Court dismissed AdjustaCam's claim construction appeal for lack of subject matter jurisdiction because the district court's claim construction had no bearing on the final judgment (which was entered incident to AdjustaCam's voluntary dismissal). *Id.* This Court also deemed AdjustaCam's appeal frivolous under Rule 38, and awarded Newegg $15,000 in attorneys' fees incurred responding to AdjustaCam's frivolous appeal. *AdjustaCam, LLC v. Newegg, Inc.*, No. 13-1665, Dkt. 130, at 3 (Fed. Cir. Nov. 19, 2015) ("Under basic principles of jurisdiction, this court was plainly precluded from hearing AdjustaCam's appeal due to the absence of a final judgment on claim construction. Accordingly, we find AdjustaCam's appeal frivolous as filed.").

Because Judge Davis retired while Newegg's original appeal was pending, the case was reassigned to Judge Rodney Gilstrap in Marshall, Texas on remand. Judge Gilstrap received briefing and heard argument on Newegg's renewed motion for attorneys' fees, expert fees, and other non-taxable expenses. Appx0001_1. On March 28, 2016, Judge Gilstrap denied Newegg's renewed motion. *Id*.

Rather than reevaluate the evidence under the new *Octane Fitness* standard, Judge Gilstrap unquestioningly adopted the prior pre-*Octane Fitness* findings made by Judge Davis:

> Judge Davis' factual determinations and in-person evaluations include the following: [listing findings]. … These fact-based assessments address and counter each of [Newegg's] arguments. Having considered the totality of the circumstances, as reflected in the record and affording due weight to the previous in-person evaluations announced by Judge Davis from his unique posture of having lived with this case and these parties, the Court concludes that this is not an "exceptional" case under § 285.

Appx0001_5-Appx0001_6. The above-quoted portion of Judge Gilstrap's opinion constitutes almost the entirety of "The Court's Analysis" of the merits of Newegg's renewed fee motion. *Id.* The remainder of the opinion was the following conclusory sentence:

> After a careful review of the entirety of the record, as well as the parties' arguments and additional briefing, the Court, in an exercise of its statutory grant of discretion, does not find that AdjustaCam's infringement and validity arguments were so weak, or its litigation conduct so poor, as to make this case stand out from others.

Appx0001_6-Appx0001_7. At no point did Judge Gilstrap address Newegg's separate arguments seeking to recover its expert fees. *Id.*; *see* Appx3724-Appx3726, Appx3735-Appx3738.

Judge Gilstrap also recognized that this Court, while remanding the case, had determined that there was "significant merit … [in Newegg's] argument that AdjustaCam's continued pursuit of its infringement claims after the district court construed the claim term ‘rotatably attached’ was baseless.” Appx0001_6 n.6 (quoting *AdjustaCam*, 626 Fed. Appx. at 991 n.2). Judge Gilstrap dismissed that determination, suggesting that to give weight to this Court’s view of the case (or his own view of the case) was “to circumvent by hindsight the judgments and in-person evaluations that the trial judge who dealt with this case in the courtroom arena was best positioned to have made.” *Id*.

SUMMARY OF THE ARGUMENT

AdjustaCam’s patent covers a camera that is claimed to rotate in a *single* axis of rotation. But AdjustaCam accused products having ball-and-socket joints such that the cameras can be rotated about *multiple* axes of rotation. This fact alone made infringement facially impossible when the lawsuit was filed. The district court’s *Markman* order later underscored the single-axis requirement and formally foreclosed AdjustaCam from ever prevailing against Newegg. AdjustaCam’s patent was also invalid, a fact that was clear to AdjustaCam from multiple rejections of the asserted claims in a USPTO reexamination.

AdjustaCam pursued the case past *Markman* and through expert discovery anyway because proving infringement was never the point. AdjustaCam is in the business of collecting nuisance-value settlements. Every settlement payment AdjustaCam obtained was for a lump-sum dollar amount constituting a small fraction of the cost of defense. To distance itself from this settlement history, AdjustaCam went so far as to fabricate an unsupportable $1.50 per unit royalty—a supposed "target royalty" that never really existed and was never used as a target by anybody in settlement discussions. In truth, the defendants universally paid off AdjustaCam because it was far cheaper than defending themselves, just as AdjustaCam intended.

On the verge of summary judgment, AdjustaCam suddenly dropped the lawsuit to avoid an adverse ruling. AdjustaCam waited until the eve of summary judgment even though it knew for nearly a year that Newegg's potential exposure was *de minimis* and that it could not meet the district court's claim construction. It did so because it held out hope that Newegg too would pay a nuisance-value settlement fee. As a result of that delay in dismissing a suit AdjustaCam knew was frivolous, Newegg spent more than $350,000 in attorneys' and expert fees.

Newegg moved to recover those fees, but its motion was never taken seriously in the district court. Judge Davis gave Newegg's motion only a passing glance and overlooked compelling evidence that this case was baseless and brought in bad faith, in part because the court applied the old legal standard.

Octane Fitness was decided while the case was on appeal, and this Court remanded to the district court to reconsider Newegg's motion under the new law. On remand, Judge Gilstrap did not even bother to discuss Newegg's arguments and the evidence before rubber-stamping Judge Davis's findings. Judge Gilstrap summarily denied Newegg's motion upon only a bare mention of *Octane Fitness*'s totality-of-the-circumstances test.

While courts around the country have been shifting fees at a dramatically higher rate post-*Octane Fitness*, the Eastern District of Texas is a clear outlier, having shifted fees only three times, far less often than other courts. The Eastern District of Texas even created a special rule to make it much harder for defendants who are dismissed from a case before trial to prove that the case is exceptional. These acts stem from a value judgment in the Eastern District of Texas that unfairly precludes relief via §285 where it is needed most.

The Supreme Court has declared Section 285 a critical safeguard to protect innovators, entrepreneurs, and the public at large from abusive plaintiffs like AdjustaCam. If fee shifting is not attainable in cases like this one, companies such as Newegg would have even less incentive to contest frivolous claims when it is much cheaper to pay the settlement demand and allow the abusive acts to continue. But no case will be found exceptional unless the district court actually and faithfully applies *Octane Fitness* and meaningfully considers a party's arguments.

Because AdjustaCam brought this frivolous case in bad faith and for the purpose of extorting settlements, this case "stands out from the others" and is exceptional under *Octane Fitness* and is also sufficiently egregious to warrant expert fee shifting. This Court should declare as much and order the payment by

AdjustaCam of Newegg's recoverable fees. Another remand is neither necessary nor appropriate. The district court has had two opportunities to conduct the right analysis and did not do so. Any fair reading of the record, and especially now under *Octane Fitness*, can only result in a conclusion that fees should be shifted.

STANDARD OF REVIEW

This Court reviews the denial of a motion for attorneys' fees under 35 U.S.C. § 285 for abuse of discretion. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1747 (2014) ("[A]n appellate court should review all aspects of a district court's § 285 determination for abuse of discretion.").

This Court also reviews a district court's decision not to award expert fees under its inherent authority for an abuse of discretion. *MarcTec, LLC v. Johnson & Johnson*, 664 F.3d 907, 921 (Fed. Cir. 2012).

"The abuse-of-discretion standard does not preclude an appellate court's correction of a district court's legal or factual error: 'A district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law or on a clearly erroneous assessment of the evidence.'" *Highmark*, 134 S. Ct. at 1748 n.2 (quoting *Cooter & Gell* v. *Hartmarx Corp.*, 496 U.S. 384, 405 (1990)).

ARGUMENT

I. THE DISTRICT COURT ABUSED ITS DISCRETION BY NOT FINDING THIS CASE EXCEPTIONAL AND EGREGIOUS

The Supreme Court in *Octane Fitness* explained that, under the 35 U.S.C. § 285, "an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." 134 S. Ct. at 1756. "District courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances." *Id.* *Octane Fitness* expressly rejected the standard of *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005), that had been applied by the district court. *Octane Fitness*, 134 S. Ct. at 1756; *compare* Appx0005 (applying *Brooks Furniture* standard). The Supreme Court deemed *Brooks Furniture*'s two-prong standard improperly "inflexible" and "overly rigid," reverting to a "totality of the circumstances" test. *Id.* The Supreme Court also eliminated any requirement that exceptionality be proven by "clear and convincing evidence," as per *Brooks Furniture*. *Id.* at 1758. Instead, the Court held that "Section 285 demands a simple discretionary inquiry" by the district judge. *Id.*; *see also Highmark*, 134 S. Ct. at 1747. But that discretion is not unlimited. It is necessarily subject to the Court's *Octane Fitness* decision of the same day. District courts have discretion to evaluate the facts of particular cases. They do not have the discretion to refuse to do so.

For egregious cases, such as those involving an abuse of the judicial process, district courts also have the inherent authority to award expert fees. *MarcTec*, 664 F.3d at 921 (explaining that district courts should exercise this inherent authority in cases involving fraud or bad faith where "the very temple of justice has been defiled"); *Amsted Indus. v. Buckeye Steel Castings Co.*, 23 F.3d 374, 378 (Fed. Cir. 1994) (explaining that "abuse of the judicial process" justifies shifting expert fees).

In denying Newegg's motion for attorneys' fees and expert fees, the district court "'based its ruling on an erroneous view of the law,'" as well as on "'a clearly erroneous assessment of the evidence,'" and thereby "'necessarily abuse[d] its discretion.'" *Highmark*, 134 S. Ct. at 1748 n.2 ((quoting *Cooter*, 496 U.S. at 405). As a factual matter, the district court failed to recognize the frivolity of AdjustaCam's infringement allegations and the clear evidence of bad faith in AdjustaCam's pursuit of Newegg. As a legal matter, the district court, on remand, erred by declining to analyze the totality of the circumstances and performing no weighing of the evidence under the *Octane Fitness* standard. Instead, the district court rubber-stamped pre-*Octane Fitness* findings by a different judge wholesale—including findings that this Court strongly suggested were erroneous in the previous appeal. These abuses of discretion warrant reversal and entry of judgment ordering AdjustaCam to pay Newegg's attorneys' and experts' fees.

A. AdjustaCam's Infringement Positions Were Frivolous

According to Chief Judge Davis (and not questioned by Judge Gilstrap), the Accused Ball-and-Socket Products included constrained ball-and-socket joints that restricted movement to some extent, and this constricted movement made it possible for AdjustaCam to prevail in proving infringement:

> *[i]f the ball and socket joint truly restricts the range of movement such that it cannot rotate about multiple axes,* the constrained ball and socket joint could meet the claim limitation which requires the hinge member being rotatably attached to the camera in a single axis of rotation. Since one could reasonably argue Defendants' products meet the "rotatably attached" limitation, AdjustaCam's infringement theories are not objectively baseless.

Appx0006. The problem is that the above-emphasized portion—the premise and *sine qua non* of the district court's conclusion—is not true. Indeed, it does not even reflect AdjustaCam's position. It is undisputed that the Accused Ball-and-Socket Products included cameras that rotated about multiple axes with respect to the socket.

AdjustaCam never argued that the constrained ball-and-socket joints were incapable of rotating about multiple axes—it merely posited that the different rotations were "separate" such that rotation about one axis at a time was possible. Appx0482-Appx0483 ("[I]f I rotate it around to the center, there is nothing that forces it to move, to tilt or to sway to either side."); Appx0484 ("There is [sic] two axes, but they are separate."); Appx0485-Appx0487 ("This happens to be a constrained ball and socket joint. So it can [1] spin about the axis, it can [2] move forward, it may be able to [3] move to the side.").

On this record, there is no question that the cameras of the Accused Ball-and-Socket Products rotated about at least two different and distinct axes relative to the sockets, not merely about the claimed and singular "first axis of rotation." '343 Patent, Claim 1 ("*said camera*, when the hinge member is so attached, *rotating, about a first axis of rotation*, relative to said hinge member"). Those axes of rotation, viewed as "separate" or not, are plural. To argue that this kind of conceptual "separateness" limits the rotational capability to a single axis is frivolous. Such an argument is akin to arguing that a car presently making a right turn is only capable of making right turns because a left turn requires a "separate" movement by the driver.

Long before the district court's *Markman* Order formally doomed AdjustaCam's case, the plain language of the claims, and especially in light of the specification, made clear that the Accused Ball-and-Socket Products could not possibly infringe. Appx0022 ("The claims plainly describe each 'rotatably attached' object as rotating about a single axis."); Appx0021 ("Every reference to a 'rotatably attached' object in the specification and claims describes the attachment as permitting motion over a single axis of rotation.”). From the outset of this lawsuit, no reasonable plaintiff could have expected to succeed in proving infringement.

The situation might have been somewhat different if AdjustaCam honestly could not have known that infringement was impossible to prove at the outset of the case, but later discovered that it could not prevail. But that’s not true here. AdjustaCam’s ignorance would be inexcusable given the readily-apparent functionality of the accused products and the simplicity of the patent and its claims.

AdjustaCam’s continued prosecution of this case became especially egregious, however, after the *Markman* Order. The Order expressly stated that the claims only included cameras that were “limited to a single axis of rotation.” Appx0022-Appx0023. And, importantly, AdjustaCam was not advancing a theory of infringement under the doctrine of equivalents—its case hinged on proof of literal infringement. *See*, *e.g.*, Appx0996-Appx0997 and Appx1160-Appx1161 (AdjustaCam’s expert report presenting only direct, literal infringement theory). AdjustaCam simply didn’t have an arguable theory that the ball-and-socket cameras were limited to a single axis of rotation.

After the *Markman* Order was issued, AdjustaCam continued litigating for nearly five more months, imposing expensive expert discovery on Newegg.

Appx0013-Appx0027 (April 10, 2012 *Markman* Order); Appx2141 (August 27, 2012 motion to dismiss Newegg). The post-*Markman* positions taken by AdjustaCam and its expert only compounded the frivolity of the infringement allegations and forced Newegg to respond to still more meritless arguments. *See, e.g.*, Appx0482-Appx0483, Appx0484, Appx0485-Appx0487 (AdjustaCam's expert's arguments re multiple, "separate" axes of rotation). Here, as in *MarcTec*, AdjustaCam "not only initiated a frivolous lawsuit, it persisted in advancing unfounded arguments that unnecessarily extended this litigation and caused [defendant] to incur needleless litigation expenses. This vexatious conduct is, by definition, litigation misconduct, and provides a separate and independent basis supporting [a] determination that this case is exceptional." *MarcTec*, 664 F.3d at 920-21.

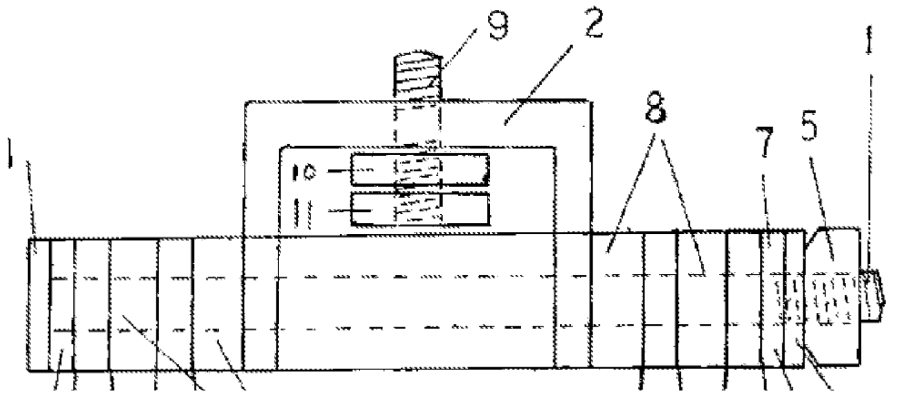
This Court observed in the prior *AdjustaCam v. Newegg* appeal that there was "significant merit … [in Newegg's] argument that AdjustaCam's continued pursuit of its infringement claims after the district court construed the claim term 'rotatably attached' was baseless." 626 Fed. Appx. at 991 n.2. Judge Gilstrap dismissed this Court's view of the baselessness of the infringement allegations without addressing the merits himself. Appx0001_6 n.6. He abused his discretion by adopting Chief Judge Davis's finding that "one could reasonably argue [Newegg's] products meet the 'rotatably attached' limitation"—a finding that was based on a clearly erroneous assessment of the evidence and a misunderstanding of what AdjustaCam actually argued. Appx0001_5 (citing Appx0006); *Highmark*, 134 S. Ct. at 1748 n.2.

Although Newegg believes that this case was meritless from the outset, not merely post-*Markman*, the claim construction ruling certainly made AdjustaCam's maintenance of its case that much worse. Newegg should not have to bear the expense of defending against such frivolous infringement assertions at all, but, at a minimum, Newegg should be reimbursed for its fees from the *Markman* Order forward.

B. AdjustaCam's Validity Position Was Frivolous

AdjustaCam also knew that the prior art Irifune reference invalidated its claims. Irifune taught that a camera could be attached to the hinge member (mounting device (2)) by screwing the camera onto the hinge member via a threaded screw (camera attachment shaft (9)):

FIG. 2



Appx1385-Appx1387, Appx1394. The camera could then be rotated around the screw. *Id.* The key dispute was whether the camera was thereby "rotatably attached" to the hinge member.

AdjustaCam advanced the following argument in response to the clear anticipation of its claims by Irifune: "With Irifune, the camera is not even attached to the hinge member until fully tightened down using camera attachment shaft (9) and camera attachment screws (10 and (11)." Appx1263. Using this exceedingly narrow view of "attached," AdjustaCam's expert opined that "[o]nce the camera is attached to the fixed part 2, the camera cannot rotate about a first axis relative to the hinge member." *Id.*

This argument was frivolous. AdjustaCam's illogical attempt to narrow the meaning of "rotatably attached" contradicts the claim language and the specification of the '343 Patent. If AdjustaCam applied the same definition to the camera disclosed in its own patent, the camera could not freely rotate about the first axis of rotation as the claims and specification require. *See* Appx0021 ("Every reference to a 'rotatably attached' object in the specification and claims describes the attachment as *permitting motion* over a single axis of rotation.").

AdjustaCam's argument also contradicted its own proposed construction of "rotatably attached" in this litigation ("connected such that the connected object is capable of being rotated"). Appx2813-Appx2814. Here, the Irifune camera is certainly "connected" and "capable of being rotated" when it is partially unscrewed from the threaded camera attachment shaft on the hinge. If AdjustaCam's view of "rotatably attached" were correct, this threaded adjustable barstool seat[5] would be neither "rotatable" nor "attached" to the base, but of course it is both:

The USPTO found no merit in AdjustaCam's arguments. It rejected AdjustaCam's position twice during the reexamination and the claims were ultimately cancelled as a result. Appx1476, Appx1508-Appx1510 (Examiner finding that "it is clearly possible to loosen the attachment screw, to enable the pivoting of the camera relative to support (fixed part 2) while the camera is still attached to the support").

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[5] Image Source: http://www.decorpad.com/look-4-less/925/Industrial-Barstool-Look-4-Less (last visited November 12, 2014).

AdjustaCam could not reasonably have expected to prevail against Newegg's assertion of Irifune as invalidating prior art. AdjustaCam's argument was frivolous, and especially so in the post-*KSR* landscape where "common sense" prevails. *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 421 (2007). AdjustaCam was aware of that fact, as the examiner had already made clear to it the problems with its position. The district court's failure to recognize the frivolity of AdjustaCam's validity position reflects a clear error of fact that constitutes an abuse of discretion. *Highmark*, 134 S. Ct. at 1748 n.2.

Notably, Judge Davis did not even mention the Irifune reference when he summarily rejected Newegg's arguments pertaining thereto. *See* Appx0004-Appx0011 (stating, without explanation, that "[d]efendants also have failed to demonstrate that AdjustaCam's validity arguments were baseless"). Even though this Court specifically directed the district court to reconsider Newegg's arguments under the new *Octane Fitness* standard, *AdjustaCam*, 626 Fed. Appx. at 991, and even though Newegg specifically briefed the issues concerning Irifune on remand (*see* A3730-31), Judge Gilstrap merely parroted Judge Davis's conclusion and likewise made no mention, let alone discussion, of the Irifune reference. Appx0001_6. Thus, the district court never addressed Newegg's arguments surrounding Irifune, and made no specific findings to justify its conclusion. These omissions are irreconcilable with any proper application of *Octane Fitness*'s totality-of-the-circumstances analysis, which directs the district court to evaluate the "substantive strength of a party's litigating position." 134 S. Ct. at 1756. That failure to apply the applicable legal standard is itself an abuse of discretion. *Highmark*, 134 S. Ct. at 1748 n.2.

C. AdjustaCam Filed and Prosecuted This Case in Bad Faith

According to Judge Davis (and not questioned by Judge Gilstrap, Appx0001_5), "there is insufficient evidence that the action was brought in bad faith and for an improper purpose." Appx0006. To the contrary, the evidence of bad faith was overwhelming.

Not only did AdjustaCam pursue Newegg for two years on patent claims that were facially not infringed by the Accused Ball-and-Socket Products, as well as clearly invalid over the Irifune prior art, but it pressed on with its case even after the *Markman* Order emphatically precluded any possible relief for AdjustaCam. *See supra.* All the while, AdjustaCam made Newegg spend considerable sums of money on discovery—including extensive expert discovery—defending against these baseless allegations. To make matters worse, Newegg had to waste all this time and money on a frivolous lawsuit even though AdjustaCam knew that Newegg's potential damages exposure was minimal. Appx1784; Appx1226; Appx1362-Appx1363.

Why would AdjustaCam do this? The answer can be found in AdjustaCam's original purpose in bringing its lawsuits—to extract nuisance-value settlements. The merits of the cases had nothing to do with the filing and maintenance of the lawsuits. Even Judge Davis conceded that "the smaller settlements suggest this case was a settlement driven case." Appx0007. As long as AdjustaCam could convince its target defendants that it was cheaper, and made more business sense, to pay a small sum of money to make the case go away than to defend themselves, AdjustaCam would continue to collect its money without ever having to risk its patent and justify its positions in court.

1. *AdjustaCam Brought this Case for the Improper Purpose of Obtaining Nuisance-Value Settlements*

The record shows that AdjustaCam's settlement agreements are all for nuisance value. The vast majority of Newegg's co-defendants paid [[[redacted]]] or less to settle, more than half paying [[[redacted]]] or less. Appx1282.

None of AdjustaCam's post-hoc efforts to align those nuisance-value agreements with its supposed damages calculations pass muster. AdjustaCam's fabrication of an unsupportable and unused "target" royalty (e.g., Appx1195-Appx1196), as well as its illusory and never-paid "running royalty" components of six of its settlements (Appx0545-Appx0549; Appx0558; Appx1313-Appx1314; Appx0631-Appx0633), are no more than self-serving, litigation-induced arguments. In reality, the effective royalty rates paid by Newegg's co-defendants were all over the map. Appx1283-Appx1285 (effective royalties ranging from [[[redacted]]] to [[[redacted]]] per unit). Not even the two supposedly "foundational" PAR Technologies license agreements support a "target" (and, essentially, fixed) royalty of $1.25 to $1.50 per unit. Appx0542-Appx0545 (discussing royalty ranges from [[[redacted]]] to [[[redacted]]] per unit); Appx0631. AdjustaCam did not even offer evidence that it knew, at any time, how many units were sold by any defendant. *See* Appx1337-Appx1338. If such evidence of good faith existed, it would have been "easy to provide." *Kilopass Tech., Inc. v. Sidense Corp.*, 738 F.3d 1302, 1311 (Fed. Cir. 2013) (plaintiff produced evidence relating to pre-filing investigation).

Consistent with its practices settling with third parties, AdjustaCam's early nuisance-value settlement demands to Newegg of $75,000 and $65,000 were never tied to the merits of the case, or even to AdjustaCam's own damages theory in the case. Appx1226-Appx1227, Appx1362-Appx1363. Even after serving an expert report calculating damages of $17,928, AdjustaCam still sought nearly three times that amount from Newegg to settle the case—a figure that AdjustaCam's own expert agreed was unreasonable. Appx1244-Appx1245, Appx1331, Appx1365.

AdjustaCam's settlements with third parties were also never tied to any prior comparable licenses or the potential infringement exposure of any party. The settlement amounts are merely small, round-number sums set to encourage defendants not to fight the lawsuit on the merits due to the far greater expense of doing so. District courts should not turn a blind eye to such flagrant bad faith.

As this Court has observed, "low settlement offers . . . effectively ensure[] that [the patentee's] baseless infringement allegations remained unexposed, allowing [the patentee] to continue to collect additional nuisance value settlements." *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1327 (Fed. Cir. 2011); *see also SFA Sys.*, 793 F.3d at 1350 ("[A] pattern of litigation abuses characterized by the repeated filing of patent infringement actions for the sole purpose of forcing settlements, with no intention of testing the merits of one's claims, is relevant to a district court's exceptional case determination under § 285."); *Am. Standard, Inc. v. York Int'l Corp.*, 244 F. Supp. 2d 990, 997 (W.D. Wis. 2002) (Bad faith litigation tactics "force defendants into settlement and away from their legitimate defenses."); *Artese v. Academy Collection Service*, No. 3:96-cv-2546-GLG, 2000 U.S. Dist. LEXIS 1186, at *10 (D. Conn. Jan. 18, 2000) (holding that the filing of many lawsuits seeking relatively small settlements "gives rise to a suspicion of *barratry* and *champerty*").

In *Ingenuity 13, LLC v. Doe*, copyright plaintiffs were found to have acted in bad faith and sanctioned for fees in circumstances largely identical to those in this case. No. 2:12-cv-8333-ODW, 2013 U.S. Dist. LEXIS 64564 (C.D. Cal. May 6, 2013). First, the plaintiffs engaged in a strategy to file lawsuits against many defendants. *Id.* at *6-7. Due to "the high cost of litigation," "[m]ost defendants settled . . . , resulting in proceeds of millions of dollars due to the numerosity of defendants." *Id.* "For defendants that refused to settle, the Principals engaged in vexatious litigation designed to coerce settlement. These lawsuits were filed using boilerplate complaints based on a modicum of evidence, calculated to maximize settlement profits by minimizing costs and effort." Importantly, like AdjustaCam, in *Ingenuity 13* "[t]he Principals have shown little desire to proceed in these lawsuits when faced with a determined defendant. Instead of litigating, they dismiss the case." *Id.* at *7.

Similarly in this case, when Newegg, after nearly two years of litigation, still refused to settle and remained determined to vindicate its legal positions, AdjustaCam's response exposed its total lack of interest in the merits of the case. As the case was entering the summary judgment phase, AdjustaCam simply walked away instead of trying to prove its case in court. Such an "overall vexatious litigation strategy" of dragging out meritless litigation is wasteful of judicial resources and evidences bad faith. *See Monolithic Power Sys., Inc. v. O2 Micro Int'l, Ltd.*, 726 F.3d 1359, 1367 (Fed. Cir. 2013) (deeming case exceptional in large part because the plaintiff "withdrew its claims and granted covenants not to sue after substantial litigation had taken place," "moving to dismiss only after [defendants] had completed their filings for the final pretrial conference, wasting the parties' and the court's resources"); *cf. Colombrito v. Kelly*, 764 F.2d 122, 134-35 (2d Cir. 1985) (suggesting that awarding fees would be appropriate "if a litigant had made a practice of repeatedly bringing potentially meritorious claims and then dismissing them with prejudice after inflicting substantial litigation costs on the opposing party and the judicial system").

AdjustaCam nonetheless contended that its decision to dismiss Newegg was for "strategic reasons unrelated to the merits"—essentially, "winnowing out" Newegg due to its *de minimis* infringement in comparison with Sakar once other defendants were dismissed and some of Newegg's sales became licensed. Appx1192-Appx1193. AdjustaCam is wrong to imply that it is perfectly acceptable to file and maintain lawsuits against "*de minimis* infringers" so long as it "winnows them out" and dismisses them before trial. In any event, that cannot explain AdjustaCam's behavior. AdjustaCam knew of Newegg's minimal exposure long before Newegg was dismissed and, in fact, well before Newegg even had to endure the burden and expense of the February 2012 *Markman* hearing. Appx1784; Appx1226; Appx1362-Appx1363 (describing sales figures provided to AdjustaCam at least as early as November 2011); Appx2136 (August 2012 dismissal motion). Shackling Newegg with considerable and unjustifiable litigation costs, despite Newegg's minimal exposure, is abusive. Section 285's exceptional case provision exists precisely to prevent such "gross injustice to an alleged infringer." *See Mathis v. Spears*, 857 F.2d 749, 755 (Fed. Cir. 1988).

2. *A Nuisance-Value Litigation Strategy is Exceptional*

Section 285 is supposed to be remedial—to correct for unfairness and injustice in a flexible, fact-specific manner. *See Octane Fitness*, 134 S. Ct. at 1753, 1756 n.6; *see also Kilopass*, 738 F.3d at 1312-13. It is a "safeguard" against abusive litigants that "use patents as a sword to go after defendants for money, even when their claims are frivolous." *Commil*, 135 S. Ct. at 1930. As the tribunals at the front line of such misconduct, "district courts have the authority and responsibility to ensure frivolous cases are dissuaded" via Section 285 and other available sanctions. *Id*. A litigant bringing frivolous claims for nuisance purposes should be well within the reach of Section 285. It should not even be a close call for district courts to shift attorneys' fees in such cases.

Civil actions for infringement exist to allow parties to resolve legitimate disputes surrounding bona fide infringement allegations, not facilitate nuisance-value patent monetization campaigns. *See Eon-Net*, 653 F.3d at 1328 ("[T]he appetite for licensing revenue cannot overpower a litigant's and its counsel's obligation to file cases reasonably based in law and fact and to litigate those cases in good faith."); *SFA Sys.*, 793 F.3d at 1350. Litigation brought for the purposes of extorting nuisance-value settlements is exceptional and should not be tolerated or immunized from fee-shifting simply because it is, unfortunately, a widespread practice today. Notably, courts in other contexts have prohibited the bringing of claims without regard to the merits that are filed to perpetuate a sham or other improper purpose. *See USS-POSCO Indus. v. Contra Costa County Bldg. & Constr. Trades Council,* 31 F.3d 800, 811 (9th Cir. 1994) (explaining that "the filing of a whole series of lawsuits and other legal actions without regard to the merits … [is not immunized under the *Noerr-Pennington* doctrine when] the legal filings [were] made, not out of a genuine interest in redressing grievances, but as part of a pattern or practice of successive filings undertaken essentially for purposes of harassment"); *Primetime 24 Joint Venture v. NBC*, 219 F.3d 92, 101 (2d Cir. 2000) (same, emphasizing "it is immaterial that some of the claims might, 'as a matter of chance,' have merit") (quoting *USS-POSCO*, 31 F.3d at 811).

Section 285 and *Octane Fitness* recognize that fee-shifting is intended to have a deterrent effect on bad faith litigation and misconduct. 134 S. Ct. at 1756 n.6. That purpose would be frustrated if all one had to do to avoid any possible fee-shifting is dismiss the case early enough to avoid losing on the merits. AdjustaCam cannot avoid the expensive and wasteful consequences of its tactics simply because it dismissed Newegg from the case. *See Kilopass*, 738 F.3d at 1317 ("[T]rial courts retain broad discretion to make findings of exceptionality under § 285 *in a wide variety of circumstances*.").

To be clear, a plaintiff's voluntary dismissal of a meritless case should be encouraged at the earliest juncture. But when a case is brought for reasons unrelated to the merits, as it was here, the incentive to dismiss must also include an incentive to dismiss at a meaningful time—before substantial expense and burden is inflicted on the defendant. Section 285 provides those incentives, and allows for the unreasonable maintenance of a lawsuit to be an aggravating factor in favor of finding a case exceptional. *See MarcTec*, 664 F.3d at 920-21; *Monolithic Power Sys.*, 726 F.3d at 1367.

While explaining that "an 'exceptional' case is simply one that stands out from others" regarding weak merits positions or litigation misconduct, *Octane Fitness* did not specifically address whether a judge who sees mostly frivolous cases can properly decline to find that *any* such cases "stand[] out from others." 134 S. Ct. at 1756. Clearly that result is not what the Supreme Court had in mind when it reminded district courts of "the need in particular circumstances to advance considerations of compensation and deterrence," and later "stress[ed] that district courts have the authority and responsibility to ensure frivolous cases are dissuaded" via Section 285. *Octane Fitness*, 134 S. Ct. at 1756 n.6; *Commil*, 135 S. Ct. at 1930. Neither Congress nor the Supreme Court is so cynical as to assume that patent litigation ordinarily involves bad faith and misconduct. The obvious assumption and requirement of Section 285 is that patent litigation will be brought and conducted in good faith, and that a case is "exceptional" when it sufficiently deviates from this expectation. *Cf. Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersysteme GmbH*, 603 F.3d 943, 954 (Fed. Cir. 2010) ("[T]here is a presumption that an assertion of infringement of a duly granted patent is made in good faith.").

Nuisance litigation, by definition, stands out for its combination of frivolity and bad faith. If nuisance litigation is common, that means that there are *a lot* of exceptional cases, not that there are few. Allowing district courts to become desensitized to abusive litigation would contradict the safeguard purpose of Section 285, as well as basic fairness and common sense.

Fee shifting is a tool that is vital to the health of the patent system. A race to the bottom cannot be allowed to protect bad actors from the reach of Section 285.

3. *Newegg Should Recover Its Expert Fees as Well*

AdjustaCam's nuisance litigation campaign imposed expert fees and expenses that should not have to be borne by defendants either. Using the court system solely to further AdjustaCam's extortive nuisance litigation campaign is exactly the kind of egregious bad faith and abuse of the judiciary that warrants shifting of expert fees. *MarcTec*, 664 F.3d 907 at 921. Bad faith assertions of frivolous lawsuits unreasonably burden the litigation targets and the courts. Courts should award expert fees under their inherent power where a plaintiff's vexatious misconduct forces a defendant to incur those expert fees unnecessarily, as those fees are not compensable under Section 285. *Id.* at 921-22 (holding that expert fees were properly awarded because "Cordis was forced to incur expert witness expenses to rebut MarcTec's unreliable and irrelevant expert testimony," such that "MarcTec's vexatious conduct and bad faith increased the cost of litigation in ways that are not compensated under § 285").

Here, as in *MarcTec*, AdjustaCam's experts' testimony was fatally flawed and could not possibly have proven infringement, defeated a validity challenge, or justified AdjustaCam's alleged damages. AdjustaCam only proceeded post-*Markman* into expert discovery to apply more pressure to Newegg for a nuisance-value settlement. This strongly indicates bad faith. *See Eltech Sys. Corp. v. PPG Industries, Inc.*, 903 F.2d 805, 811 (Fed. Cir. 1990). For Newegg to have to spend huge sums of money on experts to rebut AdjustaCam's experts' baseless allegations, on top of all the other misconduct and expense inflicted by AdjustaCam in seeking nuisance-value settlements, is a grave injustice that should not go unremedied. *MarcTec*, 644 F.3d at 921 (inherent authority should be exercised to shift expert fees where "the very temple of justice has been defiled").

II. THIS COURT SHOULD REVERSE BECAUSE THE RECORD IS CLEAR AND THE DISTRICT COURT APPEARS UNWILLING TO PERFORM THE PROPER ANALYSIS

Under *Octane Fitness*, "[d]istrict courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances." 134 S. Ct. at 1756. This analysis requires district courts to evaluate at least "the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) [and] the unreasonable manner in which the case was litigated." *Id.* Exceptionality need not be proven by "clear and convincing evidence," and only "demands a simple discretionary inquiry" under a preponderance-of-the-evidence standard. *Id.* at 1758.

Here, Judge Gilstrap failed to engage in any analysis of the facts of this case, violating both *Octane Fitness* and this Court's remand order. *AdjustaCam*, 626 Fed. Appx. at 988 ("Because we must afford the district court an opportunity to apply an intervening change in the law, we remand for reconsideration in light of the Supreme Court's recent clarification of the 'exceptional case' standard."). Judge Gilstrap's judgment was an exercise in unjustifiable deference to Judge Davis, not the "discretionary inquiry" required by *Octane Fitness*. 134 S. Ct. at 1758.

Indeed, given the intervening change in the law, there was no reason to defer to Judge Davis's determination at all. When Judge Davis originally considered Newegg's fee motion, in addition to reaching manifestly wrong conclusions about the evidence (*see supra*), he did so under the *Brooks Furniture* standard that was jettisoned in *Octane Fitness*. 134 S. Ct. at 1756; Appx0005. *Octane Fitness* did away with *Brooks Furniture*'s requirements, *inter alia*, that: (1) both bad faith and objective baselessness were required to prove exceptionality; (2) a movant had to provide clear and convincing evidence of exceptionality; and (3) litigation misconduct offered to prove exceptionality had to be independently sanctionable. 134 S. Ct. at 1756-58. This Court remanded the prior appeal for a fresh analysis and reweighing of the evidence under the new "totality of the circumstances" standard and the lowered burden of proof. *AdjustaCam*, 626 Fed. Appx. at 991. This Court also went out of its way to note that Newegg's argument appeared to have "significant merit," something that should at least have prompted the district court to take a close look at the facts on remand. *Id.* at n.2.

Yet Judge Gilstrap essentially rubber-stamped the prior pre-*Octane Fitness* findings made by Judge Davis:

> Judge Davis' factual determinations and in-person evaluations include the following: [listing findings]. … These fact-based assessments address and counter each of [Newegg's] arguments. Having considered the totality of the circumstances, as reflected in the record and affording due weight to the previous in-person evaluations announced by Judge Davis from his unique posture of having lived

> with this case and these parties, the Court concludes that this is not an "exceptional" case under § 285.

Appx0001_5-Appx0001_6. The only additional discussion of the merits of Newegg's motion was the following conclusory sentence:

> After a careful review of the entirety of the record, as well as the parties' arguments and additional briefing, the Court, in an exercise of its statutory grant of discretion, does not find that AdjustaCam's infringement and validity arguments were so weak, or its litigation conduct so poor, as to make this case stand out from others.

Appx0001_6-Appx0001_7.

Neither Judge Davis nor Judge Gilstrap ever even mentioned Irifune, the prior art asserted by Newegg to show how frivolous AdjustaCam's validity positions were, in their fees rulings. *See* Appx0004-Appx0011; Appx0001_6. Similarly, even though this Court specifically instructed Judge Gilstrap to also reconsider Newegg's arguments pertaining to expert fee shifting, Judge Gilstrap's opinion makes no mention of those arguments. *Id.*; *see* Appx3724-Appx3726, Appx3735-Appx3738. That is not a reasoned consideration of the evidence. It is no consideration at all.

This Court, while remanding the case, determined that there was "significant merit … [in Newegg's] argument that AdjustaCam's continued pursuit of its infringement claims after the district court construed the claim term 'rotatably attached' was baseless." Appx0001_6 n.6 (quoting *AdjustaCam*, 626 Fed. Appx. at 991 n.2). Surprisingly, Judge Gilstrap dismissed that determination, suggesting that to give weight to this Court's view of the case (or his own view of the case) was "to circumvent by hindsight the judgments and in-person evaluations that the trial judge who dealt with this case in the courtroom arena was best positioned to have made." *Id.*[6] In other words, Judge Gilstrap felt that it was not his place to perform a fresh analysis of Newegg's motion, despite the major shift in the law that "lowers considerably the standard for awarding fees," and despite this Court's order for him to do just that. *Oplus Techs., Ltd. v. Vizio, Inc.*, 782 F.3d 1371, 1374 (Fed. Cir. 2015). Regarding Judge Gilstrap's similar suggestion that this Court's exercise of "hindsight judgment[]" was improper, as an appellate tribunal, this Court can and must reverse clearly erroneous assessments of the evidence. *See Highmark*, 134 S. Ct. at 1748 n.2.

Octane Fitness demands that judges exercise their own discretion when resolving fee motions. 134 S. Ct. at 1758. Judge Gilstrap instead decided to exercise deference to another judge's findings made under a different, now-abrogated legal standard, despite this Court's explicit questioning of those findings on appeal. Even if Judge Gilstrap conducted his own evaluation and concluded that he agreed with Judge Davis's findings, it was still incumbent on Judge Gilstrap to independently demonstrate that those conclusions remained tenable under the new legal standard. This failure to apply the law is necessarily an abuse of discretion. *Highmark*, 134 S. Ct. at 1748 n.2.

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[6] In fact, Judge Davis himself never made "in-person evaluations" of the merits of the case because AdjustaCam abandoned its case before he had any opportunity to do so.

A proper consideration and weighing of the evidence can only lead to a conclusion that this case was meritless and brought in bad faith. It would be an abuse of discretion to find this case unexceptional. The district court had the opportunity on remand to recognize this proof of exceptionality, but declined to conduct the analysis required, and therefore overlooked and misapprehended the critical evidence for a second time. Further remand is not appropriate when the district court shows such reluctance to follow this Court's and the Supreme Court's directives.

This Court has the power and responsibility to police the district courts in their exercises of discretion, and the Supreme Court undoubtedly intended that reviewing courts would step in to ensure that Section 285 was administered in a fair and just manner to deter abusive litigation. *See Highmark*, 134 S. Ct. at 1748 n. 2; *Commil*, 135 S. Ct. at 1930. To that end, this judgment should be reversed outright.

A. Judge Davis Was No Better Positioned to Adjudicate Newegg's Fee Motion Than Any Other Judge

According to Judge Gilstrap, he was justified in declining to conduct the *Octane Fitness* analysis because Judge Davis was allegedly "best positioned" to have made the "judgments and in-person evaluations," as he was "the trial judge who dealt with this case in the courtroom arena." Appx0001_6 n.6. While Judge Gilstrap implied that Judge Davis had an extensive and regular involvement in the case, the truth is that Judge Davis' engagement with the parties and the merits was limited almost entirely to Newegg's fee motion.

Judge Davis and Magistrate Judge Love presided together over the initial status conference in the case, where essentially the only matter was the setting of a date for a *Markman* hearing and jury selection. Appx0124. Judge Davis assigned Magistrate Judge Love to preside over the *Markman* hearing, and Judge Love issued the original *Markman* opinion. Appx0144-Appx0146; Appx0026. Judge Davis later affirmed Judge Love's claim constructions wholesale in a one-page order. Appx0012.

Judge Davis made no other substantive rulings until Newegg's original fee motion was denied. Although Newegg had submitted letter briefs seeking permission to file motions for summary judgment of noninfringement and invalidity, as well as to exclude testimony by AdjustaCam's damages and infringement experts, those proposed motions were never resolved because AdjustaCam dismissed the lawsuit before Judge Davis had even ruled on the letter briefing. Appx0153-Appx0155, Appx2105, Appx2098, Appx2123. Nor was Judge Davis asked to resolve any sanctions motions or discovery disputes.

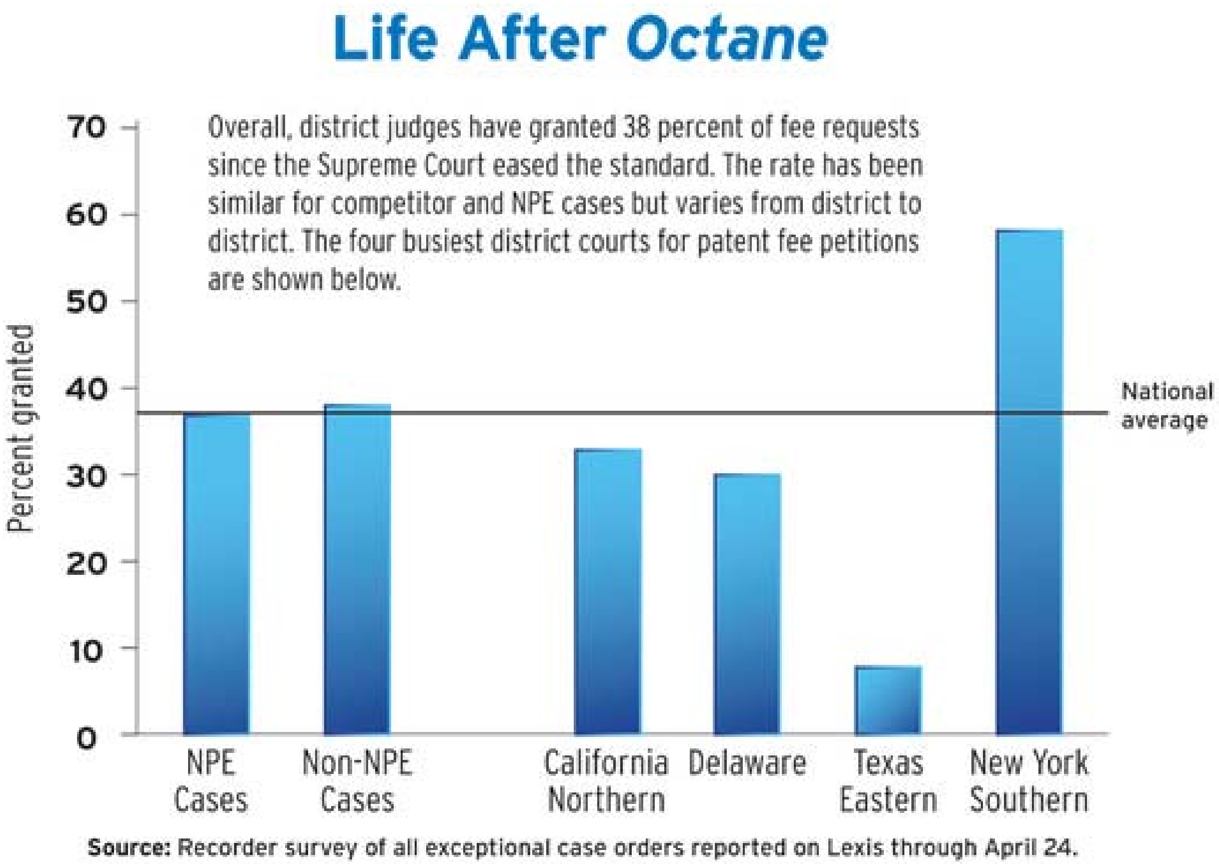
The first and only time that Judge Davis truly engaged with the case was in in connection with Newegg's fee motion. In that respect, Judge Gilstrap and this Court are just as equipped to evaluate Newegg's motion as Judge Davis was.

To be sure, it is often the case that the presiding judge in the district court will have "unparalleled familiarity with and insight into" the merits and conduct in the litigation. *See Monolithic Power Sys.*, 726 F.3d at 1367; *Nilssen v. Osram Sylvania, Inc.*, 528 F.3d 1352, 1359 (Fed. Cir. 2008) ("[I]t ill behooves an appellate court to overrule a trial judge concerning litigation misconduct when the litigation occurred in front of the trial judge, not the appellate court."). Deference to such judges is appropriate for cases where the judge, for example, witnessed discovery abuse, or where the case proceeded through summary judgment, pre-trial, and/or trial, requiring the judge to closely evaluate the parties' conduct and the merits of the case in-depth over a substantial period of time. *See id.* None of that occurred in this case to warrant the strong, nearly absolute, deference given by Judge Gilstrap to Judge Davis's findings.

B. Other Misconceptions about *Octane Fitness* in the Eastern District of Texas May Have Improperly Influenced The Result in this Case

At least some of the district court's reluctance to faithfully apply *Octane Fitness* appears to be due to an improper institutional bias in the Eastern District of Texas against shifting fees, as well as an unfounded assumption that cases dismissed before trial are unexceptional. These factors likely influenced the judgment denying Newegg its fees, and further highlight why a second remand is not an adequate remedy.

In light of the lowered exceptionality standard in *Octane Fitness*, district courts have been shifting fees more than twice as often as they did under the prior law. Hannah Jiam, *Fee-Shifting and* Octane*: An Empirical Approach Toward Understanding "Exceptional*," 30 BERKELEY TECH. L.J. 611, 624 (2015) (explaining that "[a]fter *Octane Fitness*, the proportion of fee awards granted under § 285 has more than doubled"). In the first two years after *Octane Fitness* was decided, 38% of § 285 motions were granted nationwide. Scott Graham, *New Rules Mean It's Payback Time in Patent Cases*, The Recorder, April 30, 2016, *available at* http://www.therecorder.com/printerfriendly/id=1202756439123. The Eastern District of Texas, despite having the largest number of patent cases in the country, remains a clear outlier, having granted only three fee motions post-*Octane Fitness*:


Life After Octane
Overall, district judges have granted 38 percent of fee requests since the Supreme Court eased the standard. The rate has been similar for competitor and NPE cases but varies from district to district. The four busiest district courts for patent fee petitions are shown below.
70
60
50
40
30
20
10
0
Percent granted
National average
NPE Cases
Non-NPE Cases
California Northern
Delaware
Texas Eastern
New York Southern
Source: Recorder survey of all exceptional case orders reported on Lexis through April 24.

Id.[7]

Because of a variety of pro-plaintiff procedures and practices, such as the strong tendency not to resolve cases on summary judgment, to grant stays or venue transfer, the Eastern District of Texas has become "especially popular with patent assertion entities" like AdjustaCam, who seek to use litigation solely as a way to coerce settlement. *See* Klerman & Reilly, *supra*, 89 S. CAL. L. REV. at 268-69, 279. The Eastern District of Texas' apparent

[7] *Kryptek Outdoor Group, LLC v. Salt Armour,Inc.*, No. 1:15-cv-00348-RC (E.D. Tex. March 28, 2016); *Adaptix, Inc. v. Alcatel-Lucent USA, Inc.*, No 6:12-cv-00022-JRG (E.D. Tex. March 18, 2016); *Edekka LLC v. 3balls.com, Inc.*, No. 2:15-CV-541-JRG, 2015 U.S. Dist. LEXIS 168610 (E.D. Tex. Dec. 17, 2015).

unwillingness to shift fees can be counted as yet another reason that plaintiffs like AdjustaCam file suit there. Baseless claims in that district are far more likely to go unchecked than such claims brought elsewhere, unfairly burdening defendants and forcing unjustified settlement.

The Eastern District of Texas has even crafted a special, heightened standard for Section 285 motions brought by prevailing defendants when the plaintiff dismisses the case before a ruling on the merits, holding that "[f]or a case dismissed before trial to be designated exceptional, evidence of the frivolity of the claims must be reasonably clear without requiring a 'mini-trial' on the merits for attorneys' fees purposes." *SFA Sys., LLC v. 1-800-Flowers.com, Inc.*, No. 6:09-CV-340, 2014 WL 10919514, at *2 (E.D. Tex. July 8, 2014).[8] That standard (the "Eastern District Rule"), originally created by Judge Davis, flies in the face of *Octane Fitness* in three critical ways: (1) it affirmatively requires proof of "frivolity," or objective baselessness, rather than a mere examination of the "strength of a party's litigating positions"; (2) it imposes a heightened burden of proof above and beyond a preponderance; and (3) it creates an "inflexible framework" for a certain class of cases (ones dismissed before trial) in an analysis that is supposed to be "inherently flexible." *Compare id. with* 134 S. Ct. at 1756-57.

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[8] *See also, e.g., Trover Group, Inc. v. Dedicated Micros USA*, No. 2:13-CV-1047-WCB, 2015 WL 4910875, at *3 (E.D. Tex. Aug. 17, 2015) (same); *Charge Lion, LLC v. Linear Tech. Corp.*, 6:12-CV-769-JDL, 2014 U.S. Dist. LEXIS 184576, at *5 (E.D. Tex. Aug. 25, 2014) (same).

The Eastern District Rule enables that court to avoid its duty to fully consider the arguments made by dismissed defendants. The obvious assumption underlying the Eastern District Rule—that cases dismissed by plaintiffs before trial are probably not exceptional—reflects an overarching and unjustifiable value judgment about the merits of claims and defenses in patent litigation that strongly favors plaintiffs. While Judge Gilstrap did not cite the standard here, that value judgment almost certainly influenced his decision not to delve into the substance of Newegg's motion.

Applying the added burden of this rule only to defendants seeking fees gives abusive patent plaintiffs something close to a free pass in the Eastern District of Texas. *Octane Fitness* requires meaningful evaluation of the entire case, without heightened burdens or presumptions in favor of patent owners. Failure to apply the requisite scrutiny frustrates the basic purpose of Section 285 and only "increases the *in terrorem* power of patent trolls" when it should have the opposite effect. *Commil*, 135 S. Ct. at 1932 (Scalia, J. dissenting, joined by Roberts, C.J.). If the Eastern District of Texas will not take Section 285 motions seriously, this Court must step in to send a clear message about following binding precedent and not flouting adjudicatory obligations.

CONCLUSION

For the foregoing reasons, the judgment of the district court should be reversed, and AdjustaCam should be ordered to pay all attorneys' fees, expert fees, and non-taxable expenses incurred by Newegg.

Respectfully submitted,

Dated: June 13, 2016

/s/ *Daniel H. Brean*

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ADDENDUM

1. Order dated March 28, 2016 denying Newegg's Renewed Motion for Declaration of Exceptional Case and Award of Fees and Nontaxable Expenses Attorneys' Fees (Appx0001_1-Appx0001_7)

2. Final Judgment dated August 30, 2013 (Appx0001-Appx0003)

3. Order dated August 19, 2013 denying Newegg's Motion for Declaration of Exceptional Case (Appx0004-Appx0011)

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION

ADJUSTACAM LLC,	§	
	§	
Plaintiff,	§	
	§	
v.	§	CASE NO. 6:10-cv-00329-JRG
	§	
AMAZON.COM, INC., et al.,	§	
	§	
Defendants.	§	

ORDER

Before the Court is Defendants Newegg Inc., Newegg.com, and Rosewill, Inc.'s (collectively, "Newegg") Renewed Motion for Declaration of Exceptional Case and Award of Fees and Nontaxable Expenses (Dkt. No. 792). Also before the Court is Defendant Sakar International, Inc.'s ("Sakar") Opposed Motion for Declaration of Exceptional Case and Award of Fees and Nontaxable Expenses (Dkt. No. 793). The Court heard argument on these matters on January 26, 2016. For the reasons set forth below, Newegg and Sakar's Motions are **DENIED**.

I. BACKGROUND

In 2010, AdjustaCam, LLC ("AdjustaCam") filed suit against 58 defendants alleging infringement of U.S. Patent No. 5,855,343 ("the '343 Patent"). The '343 Patent, titled "Camera Clip," relates to a clip for supporting and protecting a portable camera. While AdjustaCam dismissed its claims against a majority of defendants prior to the Court's April 2012 *Markman* order, its case against multiple defendants, including Newegg and Sakar, continued beyond claim construction. Ultimately, AdjustaCam dismissed or settled with all defendants before trial.[1] On October 11, 2012, Newegg filed a Motion for Declaration of Exceptional Case seeking recovery

[1] Both Newegg and Sakar initially opposed AdjustaCam's attempts to dismiss them (Dkt. No. 678; Dkt. No. 721), but each defendant eventually agreed to be dismissed and preserved their rights to seek costs and attorney fees (Dkt. No. 719; Dkt. No. 744).

of its attorneys' fees, expert witness fees, and costs. (Dkt. No. 727.) On January 16, 2013, Sakar filed a similar motion. (Dkt. No. 748.) The Court held a hearing on both motions[2] and subsequently denied them, declining to find the case "exceptional" under 35 U.S.C. § 285. (Dkt. No. 761.)

Newegg and Sakar appealed the Court's denial of "exceptional case" status. (Dkt. No. 764; Dkt. No. 768.) Exactly two years after Newegg's notice of appeal, the Federal Circuit remanded the case for reconsideration to "afford the district court an opportunity to apply an intervening change in the law . . . in light of the Supreme Court's recent clarification of the 'exceptional case' standard." (Dkt. No. 786-1.)[3]

II. LEGAL STANDARD

35 U.S.C. § 285 provides:

> The court in exceptional cases may award reasonable attorney fees to the prevailing party.

In 2013, the Court applied the then prevailing *Brooks Furniture* standard to determine whether AdjustaCam's case against Newegg and Sakar was "exceptional" under § 285. *Brooks Furniture Mfg. v. Dutailier Int'l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005). That standard provided that "[a] case may be deemed exceptional when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11, or like infractions." *Id.* at 1381. Absent litigation misconduct or misconduct in securing the patent, *Brooks Furniture* allowed sanctions to be imposed against the patentee "only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." *Id.* This standard also required a litigant to prove exceptionality by clear and convincing evidence. *Id.* at 1282.

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[2] The Court found that Newegg and Sakar's motions presented "nearly identical arguments" as to exceptionality. (Dkt. No. 761 at 2.)

[3] At the time this case was filed, when the parties were dismissed, and at the time the § 285 motions were originally heard and decided, this case was assigned to Judge Leonard E. Davis, who has since retired from the bench. After the Federal Circuit's remand and Judge Davis' retirement, this case was assigned to the undersigned.

In 2014, the Supreme Court decided *Octane Fitness*, which changed the standard for determining whether a case is "exceptional" under § 285. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014). The Supreme Court found that the *Brooks Furniture* framework was "unduly rigid," as it impermissibly encumbered "the statutory grant of discretion to district courts." *Id.* at 1755. The Supreme Court then held that "an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances." *Id.* at 1756. A party must now prove entitlement to attorney fees by a preponderance of the evidence. *Id.* at 1758.

The Federal Circuit recently acknowledged (post-*Octane Fitness*) the discretion afforded to district courts evaluating attorney fee awards under § 285 in *Site Update Solutions*. *See Site Update Sols., LLC v. CBS Corp.*, No. 2015-1448, 2016 WL 380119 (Fed. Cir. Feb. 1, 2016). In that case, the Federal Circuit affirmed a district court's second denial[4] of attorney fees under § 285, recognizing that "the district court ruled from a position of great familiarity with the case and the conduct of the parties, and it determined that Site Update's tactical blunders and mistakes do not warrant fees under 35 U.S.C. § 285." *Id.* at *2. The Federal Circuit noted that "[t]he new *Octane Fitness* standard for an exceptional case applies both ways: discretion is entitled to a district court's findings that § 285 attorney's fees are not applicable, as much as discretion is owed to findings that they are applicable. As the Supreme Court explained, matters of attorney's fees, and the effective contours illuminating this area, are committed to the sound discretion of the trial court." *Id.*

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[4] It is worth noting that Newegg was also a defendant in that case, in which the district court first denied Newegg's motion for attorney's fees under the *Brooks Furniture* standard and then denied Newegg's motion for attorney's fees again on remand under the *Octane Fitness* standard. *Site Update Sols.*, 2016 WL 380119, at *1.

III. ARGUMENT AND ANALYSIS

1. The Parties' Arguments

In support of their motions for declaration of an exceptional case, Newegg and Sakar make four primary arguments. First, they argue that AdjustaCam's infringement allegations were inherently baseless and that AdjustaCam demonstrated bad faith by maintaining its infringement allegations after the Court issued its *Markman* Order.[5] (Dkt. No. 792 at 3–7; Dkt. No. 793 at 8–12.) Second, they allege that AdjustaCam's invalidity arguments were frivolous. (Dkt. No. 792 at 7–8; Dkt. No. 793 at 13–14.) Third, they contend that AdjustaCam brought the lawsuit in bad faith with the goal of avoiding trial and obtaining nuisance-value settlements. (Dkt. No. 792 at 8–12; Dkt. No. 793 at 4–8, 15.) Fourth, and finally, they allege that AdjustaCam engaged in various forms of litigation misconduct, including manufacturing a sham target royalty, abandoning its case to avoid losing on the merits, and serving an untimely infringement report. (Dkt. No. 792 at 9–11, 12; Dkt. No. 793 at 6–7, 12.) Additionally, Sakar argues that AdjustaCam violated FRCP 11, providing an independent justification for awarding fees. (Dkt. No. 793 at 15–18.)

In response, AdjustaCam argues that its infringement positions were reasonable and entirely consistent with the Court's claim constructions. (Dkt. No. 796 at 10–12.) AdjustaCam

[5] In its *Markman* Order, the Court defined "rotatably attached" as "limited to a single axis of rotation." (Dkt. No. 627 at 10.) Defendants argue that their products utilize a ball-and-socket joint that facilitates rotation upon multiple axes, rather than a single axis, and thus their products could not possibly meet the "rotatably attached" claim limitation to infringe the '343 Patent. (Dkt. No. 792 at 4; Dkt. No.793 at 8.) Plaintiff argues that the accused products of Defendants utilize a "modified ball and socket joint" that would arguably fall within the Court's construction. (Dkt. No. 796 at 10–11.)

also argues that its validity arguments were meritorious. (*Id.* at 16–19.) Moreover, AdjustaCam asserts that it did not bring suit in bad faith to extract low settlements, as its settlement amounts were directly related to its target royalty rate supported by its damages expert. (*Id.* at 12–16.) AdjustaCam states that it properly dismissed Newegg and Sakar for strategic reasons and disputes that it served an untimely expert report. (Dkt. No. 796 at 20–22; Dkt. No. 797 at 4–6, 19.) Finally, AdjustaCam asserts no FRCP 11 violations occurred. (Dkt. No. at 797 23–25.)

2. The Court's Analysis

Although the standard for evaluating exceptionality under § 285 has changed, the Court finds that the facts of the case themselves remain the same as when the Court originally denied Newegg and Sakar's requests for fees. Further, the Court's in-person evaluations of the parties' motives and state of mind stemming from those facts, as also set forth in Judge Davis' original denial, should be given due weight and credence if the recognition of "great familiarity with the case and the conduct of the parties" is to have a reliable meaning. *See Site Update Sols.*, 2016 WL 380119, at *2. Judge Davis' factual determinations and in-person evaluations include the following: (1) the constrained ball-and-socket joint could meet the claim limitation which requires the hinge member being rotatably attached to the camera in a single axis of rotation (Dkt. No. 761 at 3); (2) since one could reasonably argue Defendants' products meet the "rotatably attached" limitation, AdjustaCam's infringement theories are not objectively baseless (*Id.*); (3) there is no other evidence that AdjustaCam was merely exploiting the high cost of defending a patent case to obtain a nuisance value settlement, therefore AdjustaCam did not act in bad faith in bringing this action (*Id.* at 4); (4) Defendants have failed to prove AdjustaCam acted inappropriately in this case (*Id.* at 5); (5) AdjustaCam's continued assertion of its infringement claims post-*Markman* do not amount to litigation misconduct (*Id.*); (6) Defendants

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have also failed to demonstrate that AdjustaCam's validity arguments were baseless (*Id.*); (7) Defendants contend AdjustaCam committed litigation misconduct by dragging out the co-pending reexamination proceedings of the '343 Patent with meritless validity arguments . . . a review of the reexamination proceedings demonstrates there was no delay attributable to the patent owner (*Id.*); (8) in the absence of any other dubious behavior, there is no reason to find AdjustaCam acted inappropriately [regarding the expert report] (*Id.* at 6); (9) while Defendants may disagree with AdjustaCam's methodology of calculating damages, there is no evidence this theory was so outrageous and unreliable to support an award of attorney fees (*Id.*); (10) Sakar has failed to demonstrate AdjustaCam violated FRCP 11 any time during this action (*Id.* at 7); and (11) there is evidence that AdjustaCam's outside counsel did review the claims of the '343 Patent, interpreted the asserted patent claims and compared the accused products to those asserted claims prior to filing the action against Sakar (*Id.* at 8). These fact-based assessments address and counter each of Newegg and Sakar's arguments. Having considered the totality of the circumstances, as reflected in the record and affording due weight to the previous in-person evaluations announced by Judge Davis from his unique posture of having lived with this case and these parties, the Court concludes that this is not an "exceptional" case under § 285.[6]

The determination of whether a case is "exceptional" under § 285 necessarily involves intangible elements uniquely available to the district court that has lived with the case for a period of months or years. After a careful review of the entirety of the record, as well as the parties' arguments and additional briefing, the Court, in an exercise of its statutory grant of

[6] In its order remanding for reconsideration, the Federal Circuit declared that it would not substitute its judgment for that of the district court, but then commented in a footnote that "Newegg and Sakar's arguments appear to have significant merit, particularly their argument that AdjustaCam's continued pursuit of its infringement claims after the district court construed the claim term 'rotatably attached' was baseless." (Dkt. No. 786-1 at 7–8.) This Court has endeavored not to circumvent by hindsight the judgments and in-person evaluations that the trial judge who dealt with this case in the courtroom arena was best positioned to have made, considering both the facts as well as the unavoidable human intangibles that "a totality of the circumstances" contemplates.

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discretion, does not find that AdjustaCam's infringement and validity arguments were so weak, or its litigation conduct so poor, as to make this case stand out from others. *See Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014).

IV. CONCLUSION

For the reasons set forth above, the Court finds and holds that Newegg's Renewed Motion for Declaration of Exceptional Case and Award of Fees and Nontaxable Expenses (Dkt. No. 792) and Sakar's Opposed Motion for Declaration of Exceptional Case and Award of Fees and Nontaxable Expenses (Dkt. No. 793) should be and are hereby **DENIED**.

So ORDERED and SIGNED this 28th day of March, 2016.

RODNEY GILSTRAP
UNITED STATES DISTRICT JUDGE

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION

ADJUSTACAM LLC,	§	
	§	
Plaintiff,	§	
	§	
vs.	§	**CASE NO. 6:10-CV-329**
	§	
AMAZON.COM, INC., et al,	§	
	§	
Defendants.	§	

FINAL JUDGMENT

Pursuant to the Orders granting the parties' Joint Motions to Dismiss, the Court hereby enters Final Judgment. Plaintiff Adjustacam LLC filed suit against fifty-nine Defendants in this case on July 2, 2012. Since that time, all Defendants have been dismissed: Amazon.com, Inc. (Docket No. 630); Auditek Corporation (Docket No. 647); Blue Microphones, LLC (Docket No. 492); Baltic Latvian Universal Electronics, LLC d/b/a Blue Microphones, LLC d/b/a Blue Microphone (Docket No. 492); CDW Corporation f/k/a CDW Computer Centers, Inc. (Docket No. 658); CDW, Inc. (Docket No. 658); CDW, LLC (Docket No. 10); Compusa.com, Inc. (Docket No. 620); Cobra Digital, LLC (Docket No. 420); Creative Technology Ltd. (Docket No. 348); Creative Labs, Inc. (Docket No. 560); Dell, Inc. (Docket No. 563); Digital Innovations, LLC (Docket No. 651); Eastman Kodak Company (Docket No. 217); Ezonics Corporation d/ba/ Ezonics Corporation USA d/b/a Ezonics (Docket No. 361); Fry's Electronics Inc. (Docket No. 675); Gear Head, LLC (Docket No. 665); General Electric Company (Docket No. 8); Hewlett-Packard Company (Docket No. 677); Incomex, Inc. (Docket No. 342); Jasco Products Company LLC d/b/a Jasco Products Company d/b/a Jasco (Docket No. 410); Jwin Electronics Corporation (Docket No. 419); Klip Extreme LLC (Docket No. 341); Kmart Corporation (Docket No. 445);

Lifeworks Technology Group, LLC (Docket No. 522); Macally Peripherals, Inc. d/b/a Macally U.S.A. (Docket No. 562); Mace Group, Inc. (Docket No. 562); Micro Electronics, Inc. d/b/a Micro Center (Docket No. 671); New Compusa Corporation (Docket No. 620); Newegg, Inc. (Docket No. 720); Newegg.com, Inc. (Docket No. 720); Office Depot, Inc. (Docket No. 672); Overstock.com, Inc. (Docket No. 535); Phoebe Micro Inc. (Docket No. 412); Prolynkz, LLC (Docket No. 367); Radioshack Corporation (Docket No. 493); Rosewill Inc. (Docket No. 720); Sears Brands, LLC (Docket No. 445); Sears Holdings Corporation d/b/a Sears (Docket No. 445); Sakar International, Inc. (Docket No. 745); Sakar, Inc. (Docket No. 349); SDI Technologies, Inc. (Docket No. 127); Intcomex, Inc. (Docket No. 342); Software Brokers of America Inc. d/b/a Intcomex Corporation d/b/a Intcomex (Docket No. 343); Systemax, Inc. d/b/a Compusa (Docket No. 620); Target Corp. (Docket No. 615); Tigerdirect, Inc. (Docket No. 620); Trippe Manufacturing Company d/b/a Tripp Lite (Docket No. 312); Wal-Mart Stores, Inc. (Docket No. 674); Sears, Roebuck and Company (Docket No. 445); Best Buy Co., Inc. (Docket No. 673); Best Buy Stores, LP (Docket No. 673); BestBuy.com, LLC (Docket No. 673); Conns, Inc. d/b/a Conns (Docket No. 411); J&R Electronics, Inc. d/b/a J&R (Docket No. 586); Kohls Corporation d/b/a Kohl's (Docket No. 745); Kohl's Illinois, Inc. (Docket No. 745); Solid Year Co., Ltd. (Docket No. 350); and Walgreen Co. d/b/a Walgreens (Docket No. 184).

It is therefore **ORDERED**, **ADJUDGED** and **DECREED** that the parties take nothing and that all pending motions are **DENIED AS MOOT**. All costs are to be borne by the party that incurred them.

It is further **ORDERED**, **ADJUDGED** and **DECREED** that all claims, counterclaims, and third-party claims in the instant suit be **DISMISSED** in their entirety.

The Clerk of the Court is directed to close this case.

So ORDERED and SIGNED this 20th day of August, 2013.

LEONARD DAVIS
UNITED STATES DISTRICT JUDGE

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION

ADJUSTACAM, LLC.	§	
	§	
Plaintiff,	§	
	§	
vs.	§	**CASE NO. 6:10-CV-329**
	§	**PATENT CASE**
	§	
AMAZON.COM, INC., ET AL.	§	
	§	
Defendants.	§	

ORDER

Before the Court are Defendants NewEgg Inc., NewEgg.Com Inc. and Rosewill Inc.'s Opposed Motion for Declaration of Exceptional Case (Docket No. 727) and Defendant Sakar International, Inc.'s Opposed Motion for Declaration of Exceptional Case (Docket No. 748). The Court heard arguments regarding the motions on June 28, 2013. Having considered the parties' written submissions and oral arguments, the Court **DENIES** Defendants' Motions.

BACKGROUND

On July 2, 2010, AdjustaCam, LLC ("AdjustaCam") brought suit against 58 defendants including NewEgg, Inc., NewEgg.Com, Inc., Rosewill Inc. (collectively, "NewEgg"), and Sakar International, Inc. ("Sakar"), alleging the infringement of U.S. Patent No. 5,855,343 ("the '343 Patent"). The '343 Patent, entitled "Camera Clip," is directed to a clip for supporting a portable webcam. AdjustaCam eventually settled with all the defendants prior to trial; however, Sakar and NewEgg reserved the right to seek and obtain attorney fees after their dismissal. Docket No. 720; Docket No. 744. Both parties elected to exercise this right and filed motions to obtain attorney fees pursuant to 35 U.S.C. § 285.

APPLICABLE LAW

"The court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285 (2006). When determining whether to award attorney fees, a court engages in a two-step process. *Forest Labs, Inc. v. Abbott Labs.*, 339 F.3d 1324, 1327 (Fed. Cir. 2003). First, a court determines whether the prevailing party has proved by clear and convincing evidence that the case is exceptional; and second, if the case is exceptional, a court must then determine "whether an award of attorney fees is justified." *MarcTec, LLC v. Johnson & Johnson*, 664 F.3d 907, 915–16 (Fed. Cir. 2012).

A case may be considered exceptional when there is "some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11, or like infractions." *Brooks Furniture Mfg. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). Absent such conduct, an exceptional case may only be found if "both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." *Id*.

ANALYSIS

As an initial matter, the Court notes that NewEgg and Sakar (collectively, "the Defendants") present nearly identical arguments as to why this case is exceptional. Therefore, the Court will address both parties' motions together.

Subjective Bad Faith & Objectively Baseless

NewEgg and Sakar contend this case is exceptional because AdjustaCam brought this lawsuit in bad faith and the action was objectively baseless. Docket No. 727 at 3–8; Docket No. 748 at 4–7. Specifically, Defendants argue that AdjustaCam's infringement claims were untenable in light of the Court's claim construction. The Court defined "rotatably attached" as "limited to a single axis of rotation." Docket No. 627 at 10. Defendants contend that because their products do not rotate about a single axis of rotation, they could never infringe the asserted claims of the '343 Patent under any reasonable interpretation.

Defendants argue their cameras do not rotate about a single axis of rotation because their products use a "ball-and-socket joint, which facilitates rotation about multiple axes." Docket No. 727 at 8; Docket No. 748 at 7–8. However, Plaintiff argues Defendants are misrepresenting the nature of the accused products, since the products do not have a pure ball-and-socket joint but rather a modified ball-and-socket joint with a channel that restricts movement. Docket No. 735 at 13; Docket No. 749 at 15. As one can see in the following picture, Defendants' products appear to contain a constrained ball and socket joint:

Kodak S101
Rosewill
Hercules

Docket No. 735 at 4; Docket No. 749 at 5. If the ball and socket joint truly restricts the range of movement such that it cannot rotate about multiple axes, the constrained ball and socket joint could meet the claim limitation which requires the hinge member being rotatably attached to the camera in a single axis of rotation. Since one could reasonably argue Defendants' products meet the "rotatably attached" limitation, AdjustaCam's infringement theories are not objectively baseless.

Furthermore, there is insufficient evidence that the action was brought in bad faith and for an improper purpose. Defendants argue AdjustaCam filed this action to obtain nuisance value settlements, as evidenced by its settlements with other parties to this action for amounts far less than the cost of litigation to encourage quick settlements. For example, several of the defendants settled for $225,000 or less. Defendants argue these settlements do not comport with AdjustaCam's minimum target royalty of $1.25–$1.50 per unit, therefore AdjustaCam must have sued simply to obtain a settlement.

While the smaller settlements suggest this case was a settlement driven case, AdjustaCam noted that its damage model for many of the defendants was small. *See* Docket No. 735, Exhibit 11, Expert Report of Walt Bratic at 18–32. Therefore, other defendants in this action would have necessarily settled for small amounts. While practically speaking a plaintiff may not choose to file a patent infringement lawsuit when the damages are small, there is no minimum damages requirement to bring such a case. Here, there is no other evidence that AdjustaCam was merely exploiting the high cost of defending a patent case to obtain a nuisance value settlement, therefore AdjustaCam did not act in bad faith in bringing this action.[1]

Litigation Misconduct

NewEgg and Sakar also argue this case is exceptional because AdjustaCam engaged in litigation misconduct. Specifically, Defendants allege AdjustaCam acted inappropriately during this litigation because it continued to assert frivolous infringement claims after the Court's claim construction, it maintained baseless invalidity defenses during the litigation, served an untimely amended infringement report, and fabricated a per-unit royalty to justify its nuisance value settlements. Docket No. 72 at 8–14; Docket No. 748 at 9–14. AdjustaCam counters that there has been no litigation misconduct, since AdjustaCam's infringement and validity arguments were not baseless, it did not fabricate a per-unit royalty, and it did not serve an untimely expert report.

[1] The Court notes that it seriously considers when a Defendant alleges a case was merely brought as a nuisance lawsuit, and will not hesitate to award attorney fees if the facts support doing so. However, in this case, the facts did not support such an award.

Defendants have failed to prove AdjustaCam acted inappropriately in this case. The Court has already addressed the merits of AdjustaCam's infringement arguments, therefore AdjustaCam's continued assertion of its infringement claims post–*Markman* do not amount to litigation misconduct. Defendants also have failed to demonstrate that AdjustaCam's validity arguments were baseless. Defendants contend AdjustaCam committed litigation misconduct by dragging out the co-pending reexamination proceeding of the '343 Patent with meritless validity arguments until September 2012 in order to collect more nuisance value settlements. Docket No. 727 at 11-14. However, a review of the reexamination proceedings demonstrates there was no delay attributable to the patent owner.[2] While the initial request for reexamination was filed in December 2010, the USPTO did not issue an office action until August 12, 2011. *See* docket No. 727, Exhibit 16, USPTO Office Action dated August 12, 2011. Since the initial office action though, the reexamination has proceeded normally with another non-final office action issued by the USPTO prior to its final rejection on August 30, 2012. Additionally, Defendants contend it was inappropriate for AdjustaCam to raise the same validity arguments in this litigation that it raised in the reexamination proceedings; however, Defendants have failed to articulate why AdjustaCam cannot do this, let alone why this is litigation misconduct.

Defendants further allege AdjustaCam acted inappropriately because AdjustaCam served a substantively different "supplemental" infringement report the day of its' infringement expert's deposition, without an explanation for the delay. Defendants claim the supplemental report significantly changed AdjustaCam's infringement theories, and because Plaintiff failed to disclose the modified report sooner, AdjustaCam is guilty of misconduct. AdjustaCam contends that it inadvertently disclosed a draft infringement expert report to Defendants, and did not

[2] AdjustaCam was not a party to the reexamination proceedings because it is not the owner but rather the exclusive licensee of the '343 Patent. Global Media Group LLC is the patent owner. *See* Docket No. 727 at 11.

realize the mistake until the time of its expert's deposition. Docket No. 735 at 14; Docket No. 749 at 15. AdjustaCam argues it made every attempt to remedy the situation, before the case was dismissed. In the absence of any other dubious behavior, there is no reason to find AdjustaCam acted inappropriately here. *Cf. Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1324–26 (Fed. Cir. 2011) (finding destruction of relevant documents, a failure to institute a document retention plan, a lack of regard for judicial system, and failure to engage in the claim construction process in good faith warranted an exceptional case finding).

Lastly, Defendants argue AdjustaCam fabricated a per-unit royalty of $1.25–$1.50 to justify their nuisance value settlements. Docket No. 727 at 14–15. Defendants cite to settlements wherein parties implicitly paid between $.10 per unit and $161.29 per unit as evidence AdjustaCam's royalty was simply "bogus." AdjustaCam counters that its target royalty was based on prior licenses to the '343 Patent, which is an acceptable method of calculating damages, and that Defendants misinterpret the settlement values since some of the settlements were not pure lump sum payments for units sold. Docket No. 735 at 18. While the Defendants may disagree with AdjustaCam's methodology of calculating damages, there is no evidence this theory was so outrageous and unreliable to support an award of attorney fees. *See MarcTec, LLC v. Johnson & Johnson*, 664 F.3d 907, 921 (Fed. Cir. 2012) (unreliable expert testimony will not support a finding of litigation misconduct unless the circumstances are sufficiently egregious).

Accordingly, Defendants have failed to demonstrated this case is exceptional because AdjustaCam engaged in litigation misconduct.

Rule 11 Violations

Additionally, Sakar argues Adjustcam's Rule 11 violations provide an additional basis for finding this case to be exceptional under 34 U.S.C. § 285.[3] Sakar argues AdjustaCam violated Rule 11, because AdjustaCam failed to adequately prepare its 30(b)(6) to answer questions regarding AdjustaCam's pre-filing investigations, its pleadings, and its infringement contentions. Docket No. 748 at 14. Sakar also argues AdjustaCam admitted to violating Rule 11 when its corporate representative stated he has failed to review: (1) the '343 Patent before suing Sakar; (2) the complaint against Sakar before it was filed; and (3) its infringement contentions against Sakar. *Id.* at 15. Sakar further contends AdjustaCam violated Rule 11 because its corporate representative had no knowledge of: (1) a pre-suit investigation; (2) the Defendants in the case; and (3) evidence demonstrating the accused products infringed the '343 Patent. *Id.*

AdjustaCam counters that it never admitted to violating Rule 11. AdjustaCam argues Sakar misconstrues AdjustaCam's 30(b)(6) witness' inability to answer questions regarding any Rule 11 investigation as admitting wrongdoing. Docket No. 749 at 21. Additionally, AdjustaCam contends its outside counsel did comply with Rule 11, since it conducted pre-suit investigations, reviewed the '343 Patent and its prosecution history, discussed the claim scope of the asserted claims, and reconsidered its infringement positions post-*Markman*. *Id*. at 21–22.

While a Rule 11 violation may be a basis for finding a case exceptional under § 285, Sakar has failed to demonstrate AdjustaCam violated Rule 11 any time during this action. Sakar cites to deposition testimony wherein AdjustaCam's Chief Financial Officer (CFO), Mr. Haynes, stated outside counsel reviewed the '343 Patent, reviewed the complaint, gathered evidence regarding the accused products, and prepared infringement contentions, to support its contention that AdjustaCam failed to comply with Rule 11. Docket No. 748, Exhibit 9, Deposition Testimony at 35:12–21; 35:23–36:19; 31:6–24; 111:8–19; 112:24–113:8. However, Sakar fails

[3] NewEgg did not raise this argument in its Motion for Declaration of Exceptional Case. *See* Docket No. 727.

to explain why it is a Rule 11 violation if only outside counsel performs these functions. In the context of patent infringement actions, Rule 11 requires an attorney to review the claims of the patent before filing a complaint, interpret the asserted patent claims, and compare the accused products to the asserted patent claims before filing a suit alleging patent infringement. *See Antonious v. Spalding & Evenflo Cos.*, 275 F. 3d 1066, 1072 (Fed. Cir. 2002); *Q-Pharma, Inc. v. The Andrew Jergens Co.*, 360 F.3d 1295, 1295 (Fed. Cir. 2004). Here, there is evidence that AdjustaCam's outside counsel did review the claims of the '343 Patent, interpreted the asserted patent claims and compared the accused products to those asserted claims prior to filing the action against Sakar. Accordingly, there was no Rule 11 violation which supports finding this case to be exceptional.

CONCLUSION

Accordingly, the Court **DENIES** Defendants' NewEgg Inc., NewEgg.Com Inc. and Rosewill Inc.'s Opposed for Declaration of Exceptional Case and Defendant Sakar International, Inc.'s Opposed Motion for Declaration of Exceptional Case.

So ORDERED and SIGNED this 19th day of August, 2013.

LEONARD DAVIS
UNITED STATES DISTRICT JUDGE

CERTIFICATE OF SERVICE

This is to certify that on June 13, 2016, copies of the foregoing Brief of Defendant-Cross-Appellant was served on counsel for Plaintiff-Appellant AdjustaCam, LLC via the Court's ECF system and via electronic mail upon the following:

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CERTIFICATE OF COMPLIANCE

Pursuant to Fed. R. App. P. 32(a)(7)(C), I hereby certify that the body of this brief, beginning with the Jurisdictional Statement on page 1, and ending with the last line of the conclusion on page 63, including headings, footnotes, and quotations, is written in Times New Roman, size 14-point font, and contains 13,184 words, in compliance with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B)(i).

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